

## Governance

### Outside Directors' Discussion Meeting



**Chikatomo Hodo**  
Outside Director  
Chairperson of  
the Compensation Committee

**Kiyomi Kikuchi**  
Outside Director

**Takayuki Hashimoto**  
Lead Independent  
Outside Director  
Chairperson of  
the Nominating Committee

**Tatsumi Yamada**  
Outside Director  
Chairperson of  
the Audit Committee

## Strengthening supervisory functions further to take the leap and become a truly global company

We are now in the third year since the “Forging the future” management policy was announced. Now that we have laid the groundwork and are moving into the execution phase to grow into a truly global company, the independent outside directors have engaged in some frank discussions on the role the Board of Directors should play.

### Fulfilling our monitoring functions and evolving into a world-leading company

**Hashimoto:** Looking back over the time since Jean-Marc Gilson was appointed by the Nominating Committee and took up the reins, the first year was devoted to visualizing the current situation and announcing the new “Forging the future” management policy. During the second year, he

focused on creating a global management concept called “One Company, One Team” in order to execute the management policy. Fiscal 2023 is the third year and we are at the start of the execution phase for future growth. As such, I think that monitoring will be even more important going forward.

**Kikuchi:** I firmly believe as well that we need to strengthen the monitoring function. However, as a part-time

independent outside director, I am also aware of how difficult this may be, because we do not have access to the same information as the executive officers. Business conditions have changed significantly over the past two years, and the Company has had to execute rapid business reforms, but I feel we were not fully sufficient in fulfilling our monitoring role at each step of the way. Reflecting on this, I think we are approaching a crucial stage where outside directors need to be more rigorous in our supervisory and oversight role.

**Yamada:** As the chairperson of the Audit Committee, I know that the audit process generates a huge volume of information, and it is my job to share as many of the findings as possible with the Board of Directors so that we can engage in higher-level discussions on the way forward for the Company.

**Hodo:** The external environment has changed a lot over the past year or two. For monitoring that takes such environmental change into account, I feel we need to focus on fine-tuning things in a pragmatic way, looking at realistic competitive rivalries or economic conditions for example, rather than trying to generate a eureka moment of sudden insight.

I also think that the skill levels of the corporate executive officers determine whether the vision developed is feasible or not. From a range of perspectives, including that of the Audit Committee, we need to look at how the skill levels of corporate executive officers translate into specific measures and whether the measures lead to sustainable and reproducible capabilities. For that, I think the people responsible should join the meetings, including with the Board of Directors, for further wide-ranging discussions.

**Hashimoto:** The skill level of corporate executive officers is a very important point, I agree. I have recently been thinking that we should ask corporate executive officers to attend Director Liaison Committee meetings and Board

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meetings as much as possible. I think being able to speak directly with the individuals involved would help us get a better understanding of what they are doing and what type of people they are. Often, some things are not totally understandable when they are reported by someone besides the person in charge.

Now that the pandemic has wound down, I think another useful approach is to visit overseas operating companies for discussions. My experience is that people overseas tend to be straight talkers, so information from these types of discussions might also be useful for monitoring purposes. It can be difficult to get a full understanding when you are handed a report during the meeting itself, so I would prefer to go one step further and delve deeper.

**Yamada:** In addition to the skill level of corporate executive officers, an important element is making sure the employees are convinced. Now that we are in the execution phase of the management policy, I think that the employees will be more motivated to engage if they all fully understand the need for these reforms and are convinced to take on the challenge. The CEO is currently running regular town-hall meetings, and I wonder whether the messages

from these meetings might be spread even more effectively if there were some way of keeping the channels of communication with employees open.

**Kikuchi:** I think it is also important to show concrete measures to achieve the strategy so that the employees can fully understand and empathize with the management. As a monitoring board, I feel that we need to monitor with a heightened tension and a sense of impending crisis on this point.

On a separate note, I am currently the only female Board member, so from a diversity perspective I want to create more opportunities during fiscal 2023 to talk with female managerial staff.

**Hashimoto:** The four points the Nominating Committee asked for him as fiscal 2023 targets are clear as monitoring indicators.

The first point is management with a focus on our shareholders. This is also relevant to the remuneration system, where long-term incentives factor in the share price. This results in a performance evaluation system that is sensitive to the share price, even within a single fiscal year. The second point is optimization of global management, generating profits through cost cuts or exiting from businesses that are not profitable. The third point is realizing the growth strategy. One aspect is portfolio management to shift to specialty materials. Another aspect is innovation for the future based on R&D.

The fourth point is to become an internationally recognized role model with a focus on green transformation and carbon neutrality. For example, we aim to clarify where we stand versus well-known benchmarks such as the Dow Jones Sustainability Indices (DJSI), and are focusing on how we will structure our organization and what investment will be made each year to achieve this position. For this point in particular, we have set fairly detailed KPIs.

I think that we can use the issues outlined here as the basis for monitoring by the Board.

**Yamada:** I think that in the future we will also need to monitor reporting on sustainability. In Europe, the Corporate Sustainability Reporting Directive (CSRD) has strengthened the rules on sustainability disclosures. The International Sustainability Standards Board (ISSB) also issued its first standards in June 2023: IFRS S1 covers the general requirements for disclosure of sustainability-related financial information and IFRS S2 sets out specific climate-related disclosures. There is global pressure for companies to report on how they are dealing with various sustainability requirements. I would like to encourage Mitsubishi Chemical Group Corporation respond to these requirements in the right way.

#### Establishing a succession plan as a global company that also reflects the specific conditions in Japan

**Hashimoto:** What does everyone think about succession planning, which is so important for the future? Who would take over the reins if something unexpected happened to the current CEO? Or, from a longer-term perspective, what potential candidates do we have for top management in three or five years' time, what capabilities do they have



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right now, and what type of development plan do we need moving forward? I feel that we have started to make progress in visualizing these issues. In terms of actual initiatives, we have set up job assignments and educational programs, for example. Of course, succession planning is relevant to all CXO roles, not just the CEO.

**Hodo:** Listed companies have started to take a much more serious approach to leadership training and succession. Some of the biggest changes involve the development of transparent systems to ensure decisions are made equitably, rather than based on personal contacts and connections, and organizational planning is premised on the creation of the strongest teams. However, I understand many companies are still making some subjective decisions. In comparison, MCG is run at the practical level with fair systems and defined targets and has, in my view, built world-class systems.

Over the next few years, we need to develop a broader pool of candidates who have the potential to become the next generations of high-level executives such as the CEO and to start developing this talent. At many global organizations like the one where Mr. Hashimoto and I worked, there are development programs in place that



monitor employees from their 30s for potential leadership qualities. I think that MCG is starting to set up systems so that it can develop the human resources needed for future generations of leaders.

**Kikuchi:** Since joining MCG as an outside director, my interactions with the corporate executive officers and employees have made me realize that the Company hires extremely bright and intelligent people. However, up until now, the organization has lacked systems to fully utilize these talented human resources across the Group. As the Company is working on this issue as its human resources strategy, I also think it important to create systems to train employees while they are still young and to develop future generations for CEO and CXO roles. Because the goal is to become a global company, I think it useful to post employees overseas as early as possible while they are still young, so that they can experience other cultures, develop their skills, and bring this experience back to contribute to the organization.

**Hashimoto:** I think you are right about how human resources have been managed thus far. I spoke with people in HR about how things got this way. In the past, when candidates were identified as having leadership potential, the operational divisions tried to keep a tight hold on them. Apparently now there is a much greater understanding across the Company of the need to develop human resources for the future of the business, so even the operational divisions have changed their views. Increasingly, people with leadership potential are being assigned to different parts of the business or transferred overseas. I hope to see more progress along these lines in the future.

**Yamada:** The Group companies have really started to work together as a single organization under the "One Company, One Team" concept. If the goal is to become a truly global company, I think there may need to be a greater focus on overseas sites. For example, the Group has global manufacturing operations that include overseas sites,



but R&D sites are concentrated in Japan. The leadership that such a company seeks, in terms of the roles and expertise, may differ from other global, non-Japanese companies. What do you think, Mr. Hashimoto?

**Hashimoto:** I think you are right. Even though we say "global company," the fact is that the MCG Group operations are mostly concentrated in Japan. Many of the overseas sites are companies that have been acquired. In this type of environment, I think it is difficult for the Company to quickly develop top leadership capable of constantly taking a global view and rapidly making and executing decisions. If the MCG Group aims to become a truly global company, I think we need to define exactly what the organization needs at the top and then develop the future leaders accordingly.

For example, while it is difficult to quickly develop global leaders, I think appointing people to positions at regional headquarters to build up their experience could be an important step for the future. I think human resource development needs to create programs designed to take a higher perspective and be broad in scope. I would like to help set up training systems like this to make sure we develop the next generation of CXOs, so that the MCG Group becomes a truly global company.

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