



▶▶▶ A New Start: Moving as One

## Message from the President and CEO

### **I Aim to Create a Functional Chemical Manufacturer That Can Compete on the World Stage. As CEO, I Will Give Top Priority to Developing Human Resources.**

I am Hidehito Takahashi, and I became president and CEO of Showa Denko K.K. and Showa Denko Materials Co., Ltd., in January 2022. With the unification of the management systems of both companies, Showa Denko and Showa Denko Materials have effectively realized their integration through a system in which 12 corporate officers common to both companies, under the president and CEO, execute the management of both companies. We will complete the integration as a newly integrated company (Resonac\*) in January 2023, and I am determined to work with everyone to enable the newly integrated company to make the leap forward to becoming a global top-level functional chemical manufacturer.

Our major advantage is the present overwhelming superiority over other companies of our semiconductor materials in terms of scale and product range. We will highlight to the world the superiority of our semiconductor and electronic materials segment, which is integral to the growth of the data economy, where vast amounts of data are utilized in economic activity. At the same time, we will thoroughly refine businesses with potential through portfolio management and strengthen the financial standing that underpins them. Our human resources, however, are the most important factor in achieving our goal of becoming a global top-level functional chemical manufacturer.

My leadership policy is to focus on doing what only I can do. What does this consist of? The answer is human resource development. Developing human resources requires time, passion, and perseverance. To this end, I will devote all of my time to human resource development and personnel matters.

\* The change of company name and the transition to a holding company structure are subject to approval at the extraordinary shareholders' meetings scheduled to be held for both companies in late September 2022.

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Aiming to Compete with the World through Japan’s Manufacturing Industry

I believe that my earlier career has helped prepare me to guide our strategy. Approximately four years after joining a bank as a new graduate, I went abroad to study for a master’s degree in business administration, staying there to work after acquiring my degree to spend a total of 11 years overseas. In accumulating a variety of experiences as a bank employee, I came to feel that although the *monozukuri* (manufacturing) capabilities of Japan’s manufacturing industry were first rate, its poor management and strategies had prevented it from prevailing against companies from Europe and North America. With the dream of competing with the world through Japan’s manufacturing industry, I therefore decided to expand the skills and knowledge that I could use to contribute to Japan’s manufacturing industry, by accumulating a wide range of experiences.

After returning to Japan, I was approached by the General Electric Company (GE)—where Jack Welch’s management was at that time garnering acclaim—which I joined with the aim of developing myself until I returned to a Japanese company. I served as division manager and in other positions at three foreign-owned manufacturers, including GE. These experiences honed my ability to look at matters with a foot in both camps: Japan as viewed from overseas, and overseas as viewed from Japan.

Since joining Showa Denko, I have consistently tackled three initiatives. The first is reform of our portfolio. I strengthened the Carbon Division through the acquisition of Germany’s SGL GE, acquired a downstream coating materials company, and launched a takeover bid against Hitachi Chemical. The second is the promotion of openness and accountability in business management. Introducing key performance indicator (KPI) management and standardizing reporting formats enabled the forming of connections between divisions. The third is improvement of marketing. I have long felt that Japan’s general chemical manufacturers have a low level of awareness of marketing. With this in mind, I established a new marketing team in the Corporate Strategy Department. The new team’s activities included strengthening the management of research and development themes through the incorporation of a marketing perspective. The integration with Showa Denko Materials, which is in closer proximity to end-users, also bolstered our marketing capabilities. As all of these three initiatives are poised to achieve their goals, I have decided to devote all of my time and energy to developing human resources going forward.

In these ways, I promoted reforms to unlock Showa Denko’s potential. Accordingly, when I was sounded out about becoming president and CEO, it was natural for me to accept. I viewed it as recognition of my experience and track record to that point in promoting efforts in pursuit of Showa Denko’s quest to become a company that can compete on the world stage.

Becoming a Team Where People Trust Each Other to Facilitate Sound Management

I believe that management is a team effort. To facilitate sound management, a company must strengthen its management team, ensure their psychological safety, and eliminate any unconscious bias.

To illustrate, I would like to discuss the actions I took to ensure psychological safety among the management team. In launching the new management system, the 12 members, including myself, who would become corporate officers went on a two-day training camp in December 2021, at which we worked on team building. In a classroom session in the first half of the first day, after learning about the state of the corporate cultures of the two companies and what constitutes a team, we discussed the type of culture and team we would like to create. I spoke of my aim to create a team in the style of a jazz band without sheet music, where one member cues in another by making eye contact and each can anticipate another’s intentions. In the second half of the day, we held a program in which the participants wrote down (while I was out of the room) what they wanted me to stop, what they wanted me to rectify, and what they wanted to ask me, in response to which I would comment one by one. This exercise was a team-building technique known as new-leader assimilation\*, an initiative to improve relationships between managers and their subordinates by strengthening their mutual understanding.

In the first day’s session, we were able only to exchange opinions briefly, with comments limited primarily to requests for me to maintain a levelheaded response, such as to improve the way I sat to avoid giving a negative impression and to listen earnestly to others, even when they spoke at length. Other comments even suggested that my career history was so pristine that it was off-putting. On the second day, however, I received two to three hours of negative interview results in response to my presentations at the town-hall meetings we had held, criticizing everything from the content of my presentations to my way of speaking. Since I take critical opinions as valuable feedback that helps me to grow, I never feel angered or disheartened by them, but even I found such comments hard to take. There was no time for discouragement, however, as I was about to make a presentation to the camp members. Naturally, in light of the comments I had just heard, I played it safe in my remarks. After my presentation was finished, however, the 11 members said that my new style of speaking was dull and that there was no need to change to that extent as they would make good any of my shortcomings. When I heard this, I felt that we had truly become a team.

I do not believe that I can accomplish everything on my own, nor do I want to be an emperor in new clothes. I wanted to ensure everyone’s psychological safety and create a system that allows bad news to be delivered to me at once. I think the training camp has enabled us to create a team whose members trust each other.

\* New-leader assimilation: A technique to unite team members with their new leader by creating an opportunity for subordinates to have a discussion regarding their manager in his or her absence, with the content of the discussion conveyed to the manager anonymously. I incorporated this technique into the training camp activities with the object of accelerating the launch of the new team and advancing operations smoothly by strengthening mutual understanding.

The Critical Period of Post-Merger Integration

As can be seen from reading the career histories\*1 of the corporate officers common to both Showa Denko and Showa Denko Materials, who took up their positions in January 2022, not all of them are originally from either Showa Denko or Showa Denko Materials, with many recruited from outside the companies. The new team of 12 comprises seven corporate officers from Showa Denko and five from Showa Denko Materials. Including myself, five of the seven corporate officers from Showa Denko joined the Company in or after 2015. I am well aware that the present time, in which two companies of large scale are in the process of becoming one, is what might be described as a critical situation. Since time is of the essence for post-merger integration, we are creating an optimal management team while making up for a shortage of internal human resources with experience from external sources, although continuously pursuing such a strategy over the long term would not be advisable. Reflecting on this, I believe that developing our own human resources while we buy time in this way is of the utmost importance.

As explained in detail by Hideki Somemiya, Showa Denko’s chief financial officer (CFO), and Tomomitsu Maoka, the chief strategy officer (CSO), in their discussion with the analyst Mikiya Yamada elsewhere in this report\*2, until the promotion of openness and accountability and the increase in standardization in our businesses, the head office and individual divisions communicated in a manner resembling a hub-and-spoke system. Since each division had its own rules and operations, it was difficult for employees to understand anything other than their own division, and it was taken for granted that leadership positions would be filled by those from within a division. To address these issues, we spent three years working to promote openness and accountability and increase standardization, enabling us to cross divisions to handpick general managers. As a result, general managers of divisions today are expected foremost to provide leadership, rather than have complete knowledge of a division.

Showa Denko has 13 divisions. The general managers responsible for these divisions ought to be personnel with the best leadership skills, rather than those who have the longest experience of serving in them. For example, when there are two people with leadership skills in one division but none in another, it is crucial to have in place a system to allow one of the two to promptly take up the general manager’s position in the division in question. Although our efforts are still incomplete, I regard the fact that we developed a system to enable the transfer of divisional general manager-level personnel across divisions to be a significant step toward achieving reform.

I am also keenly aware of issues regarding the growth of our young employees. When I held a roundtable discussion with young employees from one of our divisions, I asked them where they thought they would be in a decade’s time. One such employee imagined the series of personnel changes that would follow in their own division as a result of the departure of a particular person in a decade’s time. As I believe that a businessperson’s worth can be measured by the cumulative total of difficult situations they have faced and overcome in their careers, I am keen for young employees to experience divisions at various stages of development from a





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young age to facilitate their growth. I aim to boost the value of young employees by developing them through challenging assignments at both struggling and flourishing divisions.

At the same time, I want to keep in mind that there are as many careers as there are people. A company needs human resources who want to be managers, so from an early stage I will stretch employees who truly wish to compete. However, not all employees need to have such aims. Since employees differ in terms of when they can give their utmost effort, I aim to provide equal opportunities and expand the range of career path choices.

\*1 For career histories and messages from the new corporate officers, please see Messages from Corporate Officers on page 14.  
\*2 Please see the Discussion on page 32.

Creating a New Company by Combining A and B to Produce X, Rather than Being Merely the Product of a Merger between Two Companies

Tomorrow will not be better than today unless we change what we do, the way we do it, and the people who do it. The integration of the companies comes with all three of these conditions for changing tomorrow. Opportunities such as this to change everything are a rare occurrence.

The integration of Showa Denko and Showa Denko Materials will see the companies take a new step as Resonac beginning in 2023. Although the two companies will become one, neither fully knows the other's human resources as yet. When managing through a mixed team, it is not healthy to have a situation where one half of the team knows nothing about the other. A shared language for discussing values is required to enable team members to communicate with each other on a common basis. To this end, in addition to the purpose of the newly integrated company set out in the long-term

vision—to “Change society through the power of chemistry”—the newly integrated company has stipulated the values that it holds dear and established these as part of its corporate philosophy along with the purpose. The four values call for employees to be Passionate & Results-Driven, have Open Minds & Open Connections, be Agile & Flexible, and maintain a Solid Vision & Solid Integrity.

Although describing these as values may sound like overemphasis, it is actually reasonable to speak of them as such. I would not want to work with people who did not hold such values. The people we need at Resonac are those who hold these four values. The newly integrated company will become X (that is, a united company) when the purpose and values have been completely disseminated. To achieve this goal, we will focus on boosting the number of people who share these values by devoting time to instilling our corporate philosophy.

We will pass on our corporate philosophy through a cascade system, from myself to corporate officers and from them to each division and the frontlines. However, as the corporate philosophy is passed on through the cascade, the level of enthusiasm for it wanes. To revive the enthusiasm, I am currently visiting operation sites. As of July 2022, I have visited 44 such sites in Japan and overseas. I go to the frontlines as much as possible and value the time spent with employees. I ask them to join with us if the corporate philosophy strikes a chord with them and they feel enthusiasm for it, and tell them that I hope they will share their feelings on it with those who are absent. Communicating directly with employees in this way is what I can do best and what I am uniquely qualified to do.

Concurrently, we added the new goal of becoming a company that develops co-creative talent that represents Japan's manufacturing industry to the goals we have adopted of becoming a company that can compete on the world stage and a company that contributes to a sustainable global society. I hope that Resonac can be a company that is envied for its human resources. The characteristic linking these human resources will be our values.

Realizing a “Co-creative Chemical Company,” as Our Purpose Cannot Be Achieved through Our Efforts Alone

The power of chemistry is an indispensable part of creating the functions needed for people to live. Our belief that chemistry holds the key to solving environmental and social issues led us to adopt “Change society through the power of chemistry” as our purpose. However, our purpose cannot be achieved through our efforts alone. We can only realize our purpose through co-creation with a variety of stakeholders, including customers, business partners, employees, and local people. This is why we seek to form connections with a wide range of stakeholders and why we chose “Co-creative Chemical Company” when we sought to put our vision into words. These words reflected the desire of both corporate officers and frontline employees.

Given that forming connections is not a one-way process, we cannot connect with others unless they choose to connect with us. Being chosen by others means becoming a good company. When we considered what constitutes a good company, sustainability emerged as a keyword. I believe that sustainability pertains not only to sustainability of the environment but also a company's ability to maintain its existence by continuously maximizing its value. A good company cannot survive without first earning revenues; at the same time, it will not be chosen by others unless it contributes to society. These aspects are two sides of the same coin. An unprofitable company cannot contribute to society. I believe that we must create a company that can strike a balance between these aspects.

In this sense, the Showa Denko as it currently stands cannot be described as a good company. We must evolve into a company that is chosen by others. Winning trust in our management team by establishing a high “say-do” ratio\* and achieving strong business results is integral to commanding the confidence of investors and other stakeholders. A company that is unable to do this cannot become a good company.

\* Say-do ratio: The ratio between what people say they will do and what they actually do.

Our Material Issues for Sustainability as a Mirror Reflecting Our Ideal State

The role of management in maximizing corporate value is to create an environment that facilitates continuous growth and boosts profits. To create such an environment, we must resolve our three sustainability-related material issues.\* The way we will do this is through our strategies. Resolving our material issues for sustainability will enable us to continuously boost profits and achieve growth. Environmental issues, human rights, diversity, and other issues are included in this scheme.

The three material issues for sustainability that we have formulated are like a mirror reflecting our ideal state, in light of which we have derived our main strategies: establishment of a world-class revenue base, improvement in portfolio management, and innovation (technology × business model).

With regard to portfolio management in particular, although Showa Denko currently maintains a wide range of businesses, the Company's corporate value is lower than the sum of the corporate value of each of its individual businesses, resulting in a conglomerate discount. We intend to raise the visibility of this issue and make clear the actions that we must take to address it, enabling each division to understand what a conglomerate truly is and why such a discount occurs.

There are three judgment conditions for achieving an improvement in our portfolio: whether a given business is consistent with our strategy, including sustainability; whether we are the best owner; and whether the business can achieve the rate of return that we expect. In line with these conditions, we will operate our businesses with discipline. Some investors may argue that a company president should concentrate on businesses that can demonstrate the most corporate value without, in their opinion, wasting time on examining the portfolio internally. Operating businesses with the discipline I just mentioned will be important to avoid such arguments while following through on our commitments will help build trust in our management team.

\* Our three material issues for sustainability: Strengthen competitiveness and create social value through innovation; gain social credibility through responsible business management; and develop autonomous, creative, and active human resources and culture.

Laying the Foundations to Become a Company That Cultivates Co-creative Human Resources

Although I have discussed what constitutes a good company, we must also consider the question: For whom are companies good? In concrete terms, a company that is good for its shareholders may not necessarily be one that is good for its employees. I believe that the only way to balance both is to become a company that cultivates co-creative human resources.

While I mentioned previously that a businessperson's worth can be measured by the cumulative total of difficult situations they have faced and overcome in their careers, I feel that the cumulative total stops increasing for businesspeople at most Japanese companies, where employees serve long apprenticeships. Going forward, I aim to create role models and build a path for young employees to one day become corporate officers by handpicking young employees to expand the cumulative total of their worth from an early stage. However, the cultivation of employees cannot be achieved overnight. I expect that it will take 10 years to achieve our aims in this regard. Regrettably, I will not be able to attain my ideal vision during my own tenure as president and CEO. Nevertheless, when I step down I hope to have it said of me that I laid the foundations for Resonac to become a company that cultivates co-creative human resources.

As I believe that the unification of the management systems of Showa Denko and Showa Denko Materials has enabled the creation of a management team that is worthy of trust, I am determined to deliver results. I would like to ask for your support and cooperation in our efforts.

