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## Discussion

# Process for Selecting the New President and CEO

In January 2022, Hidehito Takahashi became Showa Denko's president and CEO.

In this dialogue, Representative Director and Chairman Kohei Morikawa and Chairman of the Nomination Advisory Committee Masaharu Oshima discussed their thoughts on the process for selecting the new president and CEO, the unification of the presidencies of Showa Denko and Showa Denko Materials, the background to generational change, and efforts to accelerate integration and promote speedy management as a Group.

## Two Factors in Changing a President

**■ Morikawa** There are two important factors when a company changes its president. One is timing, and the other is the availability of a successor. A company must consider the right timing to make a change and decide who to appoint. The matters that a company must address will change over a period of between four years and six years. I believe it is vital to select a candidate at a suitable time who can do what needs to be done.

**■ Oshima** To proceed with its consideration of a new president and CEO, the Nomination Advisory Committee must properly understand Showa Denko's present circumstances and ascertain the type of candidates who are available.

The first stage of the process for selecting the new president and CEO saw discussions at meetings of the committee on a suitable timing for change, with committee members exchanging views on a variety of issues. These included questioning the need to appoint a successor in 2022 and considering the suggestion that it would be better to make the appointment a year later in 2023, when the newly integrated company was established.

**■ Morikawa** The most important role of a president is to decide on the timing of the change by getting to the bottom of a company's immediate requirements. Mindful of this, I began the process of considering the selection of the next president and CEO, based on my judgment in my capacity as president and CEO.

I have often explained that the integration of Showa Denko and Showa Denko Materials (formerly Hitachi Chemical) entails creating a new company—I call it "X"—as opposed to combining companies "A" and "B" to create a company called "AB." Both companies will together create a new company, rather than simply integrate. Because speed is of the utmost importance to achieve this goal, we must begin to create now the conditions (in terms of structures and systems) that we will have in 2023 rather than waiting until we establish the newly integrated company. I decided that if we could create the conditions now, then now would be the best time to change the president and CEO. This explains why the new president and CEO serves concurrently in that position at both Showa Denko and Showa Denko Materials.

## The Ideal Leadership Values Required in a Critical Situation

**■ Oshima** In the second stage of the process, the committee defined the ideal leadership values required in a successor by Showa Denko at the present time. The establishment of the newly integrated company—representing a second foundation for Showa Denko—will serve as a major turning point in the Company's history. Accordingly, the committee placed emphasis on confirming whether the Company had the capacity and the reserves of strength to navigate this challenging situation and the vigor to accomplish post-merger integration (PMI). Moreover, given that the international

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situation is in a considerable state of flux, we were keenly aware of the need to select a leader capable of dealing with this critical period, recognizing that an international mindset would be an extremely important attribute in a successor.

The next stage in the process saw the directors narrow down to four the number of successor candidates from the list of individuals chosen by Showa Denko and the former Hitachi Chemical. The successful candidate was then selected through an interview with the Nomination Advisory Committee, becoming the new president and CEO after receiving the approval of the Board of Directors.

**Morikawa** Scores indicating a high or low level of ability in the manner of an academic grade point average are irrelevant. The key point is that the successor is a good fit for the Showa Denko of today. The Company selected a leader needed by the Showa Denko Group of the present. Had the Company not been integrating with the former Hitachi Chemical, it might have selected a different individual.



**Oshima** I was struck by comments you made during our discussions that, although all times are critical, the critical situation facing the Company at this moment is the PMI process, and that while hidden critical situations exist at all times, the critical situation of today is in plain sight.

**Morikawa** When I became president and CEO in 2017, the Company recognized that it would be difficult for it to survive. Acquiring the former Hitachi Chemical had not been discussed at that time, and we had to foster the attitude that we should all aim to create a first-class company, with settling for second best deemed unacceptable.

**Oshima** The nature of the critical circumstances facing Showa Denko has changed significantly. The Company appointed president and CEO Takahashi based on the qualities and abilities it requires in light of this change.

**Morikawa** A company president must make a clear distinction between what he/she is good and not good at doing. If a president lacks ability in a particular aspect of their role that is growing in importance at the company, then it is time to change the president. Assuming that the timing of the change is suitable, a company must choose a successor who can do what the outgoing president could not.

When Showa Denko integrated with Showa Denko Materials to become a new company, I felt that my abilities were perhaps ill suited to the role of the president and CEO.

Key Points in Evaluating President and CEO Takahashi

**Oshima** Turning to president and CEO Takahashi, I find him to be a highly logical, articulate, and persuasive person. He also analyzes matters fairly and accurately. In addition, I have a high regard for his track record, which includes the acquisition of Germany's SGL GE Holding when he served in the Carbon Division. He was the candidate who fulfilled the key points that we emphasized in the selection process, such as an international mindset, popularity, a long-term vision, and a strong track record.

Speaking personally, when Mr. Takahashi gave a lecture on frontier chemistry in 2021 at the University of Tokyo's Faculty of Engineering, where I was a professor, I was impressed by his tremendous power to inspire young people. Students listened intently to his lecture, and many of them then lined up to ask him questions. Seeing students waiting to ask questions after a lecture—despite having a subsequent class to attend—was no ordinary spectacle. Some students wrote in the questionnaire regarding the lecture that they would like to work at Showa Denko. In this way, I thought that he was someone with the power to engage people.

**Morikawa** Setting the wheels in motion for such an endeavor as the integration, which no one has yet experienced, requires a considerable amount of energy. President and CEO Takahashi has the ability to quickly drive forward such endeavors. Indeed, he excels at doing so.

**Oshima** He also engages vigorously in discussions. A feature that you and president and CEO Takahashi share is your focus on transforming Showa Denko into the leading player in the manufacturing industry. I regard the establishment in 2022 of Showa Denko's vision—as that of becoming a company that develops co-creative talent that represents Japan's manufacturing industry—as an expression of that strong determination. President and CEO Takahashi is crucially aware that Showa Denko will not survive unless it sets its sights on becoming a first-class company. Among the final four candidates, such an awareness was most prevalent in president and CEO Takahashi. I believe that this is because he pays close attention to the world in a wide-ranging manner.

**Morikawa** There is no doubt that he is the person best suited to create the post-integration company.

Looking toward the Future

**Morikawa** Diversity is an essential element of Showa Denko's quest to become a first-class company. It also holds the key to corporate sustainability, ongoing growth, and value creation. We will capture a diverse range of human resources by offering opportunities to talented individuals, regardless of their gender, age, or nationality. Doing so will enable Showa Denko to boost the number of outstanding human resources that it has to lead the next generation.

I believe that boosting such human resources will, in turn, help Showa Denko to become a better company.

To achieve this goal, it is important that we fear neither change nor difference. Our first experience of change in life is probably when we change classes at school. The way a person's abilities develop will vary significantly depending on whether they feel negatively about becoming separated from their friends to that point or view the change as an opportunity to make new ones. In this way, our first test in life is whether we can take advantage of change.

In addition to female managers, we must give consideration to the promotion of non-Japanese employees. I envisage a trend in which regional operations are managed locally, with personnel taking charge who are suited to each region. For example, local human resources could become the heads of regional headquarters, which would invigorate communication and facilitate the development of next-generation human resources.

**Oshima** I intend to focus on employee development by drawing on my experience as general manager of human resource development at NTT's research laboratories\* and my experience of education and training at the University of Tokyo. Following my appointment as an outside director of Showa Denko in 2015, I have served on the Nomination Advisory Committee since its establishment in 2016, becoming chairman of the committee in 2019. While the Nomination Advisory Committee played only a minor role in employee development at the time of its establishment, it currently views monitoring the development of next-generation human resources as one of its key roles.

Although still a work in progress, Showa Denko has greatly expanded its human resource development initiatives, which include efforts to identify and develop human resources with high potential through leadership training and a leadership program. Showa Denko monitors a considerable number of next-generation human resources and holds discussions on its aims for their development and the actions that must be taken to realize such aims. Nevertheless, I believe that the development program for next-generation human resources must evolve even further. This is because personnel affairs and human resource development are closely connected with each other. Although the Nomination Advisory Committee did in fact actively discuss human resource development in 2020, the selection of a president and CEO to enable Showa Denko to navigate critical circumstances became the committee's primary agenda item in 2021. Accordingly, I hope to advance discussions on a vision for the future of human resource development as a newly integrated company.

\* In charge of human resource development at the Musashino Electrical Communication Laboratory, Nippon Telegraph and Telephone Public Corporation (currently Nippon Telegraph and Telephone Corporation)

**Morikawa** Showa Denko must work carefully on the management and operation of its human resources pool. Another issue for the Company to address as it moves forward is succession planning. Addressing this matter is one of the roles of the Nomination Advisory Committee. Succession planning is also part of the Company's crisis management. We will ascertain the type of president and CEO that we require and verify whether we must update the requirements for the position on an annual basis. In the event of an unforeseen eventuality, we must be able to respond according to such requirements.



Along with PMI, the evolution of the Board of Directors is an urgent priority. I think that 2022 is a good time to once again redefine the role of the Board. We must decide on the kind of Board of Directors that will be appropriate for the newly integrated company, including the relationship between business oversight and execution. I believe that issues that include the personnel matters you pointed out will come in the wake of such a decision. I recognize that clarifying our vision for the future of the Board of Directors and carefully arranging the issues accompanying that clarification are major tasks to be addressed in 2022.

I became the chairman of the Board of Directors in 2022. While maintaining business execution rights, I recognize that I must further strengthen my role in terms of oversight. My role, particularly in my capacity as representative director and chairman of the Board, and the role of Representative Director and Chairman of the Board Hisashi Maruyama of Showa Denko Materials, is to successfully link the approaches of those who are experienced in business execution at Showa Denko with those who have accumulated extensive experience outside the Company.

Our goal is to improve our corporate value. While it is acceptable for methods and viewpoints to differ slightly, recognizing that our sights are set on the same goal is the starting point for our endeavors.

Process for Selecting the New President and CEO

- (1) Discussion on a suitable timing for the changeover
- (2) Definition of the requirements of the new president and CEO (leadership values needed)
- (3) Selection of candidates\*
- (4) Interviews by the Nomination Advisory Committee
- (5) Reporting of the interview results to the Board of Directors for approval

\* Interviews were conducted with the final four candidates selected by inside directors from a list of successor candidates. In preparing the candidate list, the personnel divisions of both Showa Denko and Showa Denko Materials narrowed down the number of candidates by carrying out their own investigations while using the findings of an external research organization for reference.