

## Roundtable

Outside Director,  
Representative Director and Chairman of the Board,  
CRO, CHRO

## Our transformation of the Board of Directors

Why does the Board of Directors need to be transformed? And why should it be happening now? Let us examine the role and function of Resonac's Board, and how it will look going forward, as we strive to further enhance our value as an enterprise.



**As Resonac endeavors to expand globally, what should be the relationship between the Board of Directors and the execution side?**

**And what should be the role of the outside directors?**

**Morikawa** Since the transition into Resonac, the biggest change has been that the goal of expanding globally has really started to take shape. If the execution side is trying to get us up to a level where we can compete worldwide, the Board of Directors, which monitors that, must also meet world-class level standards. And that means the Board needs to completely reinvent itself. We're kind of in an emergency, so going global makes monitoring all the more important. At normal times, gaps between targets and performance don't occur all that often, but in the midst of an emergency, there's a danger of enormous gaps arising.

**Tsuneishi** Since taking on the role of an outside director at Resonac, what's struck me is that this is a company of the like that's rare in Japan, as it has boldly set sights on achieving large-scale growth, and is implementing a major transformation to accomplish that objective. Even though it's a company with over a century of history and tradition behind it, it is, in some way, like a start-up. And this transformation has only one aim: to increase corporate value. Strategy is consistent, and all the employees are working toward the same goal, which is exciting and appealing to me. Because it's the frontline personnel who are the ones that will actually reach the goal, it's vital to get every employee on board. The role of an outside director is to verify that the company's strategy is *viable* and that there are no risks lurking out of view. Outside directors don't know the ins and outs of the firm's industry or business, so in a sense they're novices. Yet I think that the fact that they aren't experts in the sector means that they can sometimes notice hidden risks. On the other hand, there are also outside directors who regard themselves as business administration professionals, and are

fully cognizant of the implications of the numerical targets, such as EBITDA of 20% and ROIC of 10%, announced by President Takahashi. I hope that we will be able to provide support and useful advice for hitting those numbers.

**Morikawa** I'd like you, Mr. Tsuneishi, to serve as Resonac's navigator as we seek to enhance our corporate value. Not only are you knowledgeable about the semiconductor field, but you've already played a central role on the board of a company that competes on the world stage, and produced fantastic results in increasing its corporate value. I want you to give us a dose of that experience. Monitoring a board of directors is like being an athletic coach in a car cheering a runner in an *ekiden* road race (long-distance running multi-stage relay race, mostly held on roads), with the runner representing the execution function. I hope that you can be our coach in a car.

### Board transformation that began with free discussion Invigorated debates and changed agendas

**Kamiguchi** When Japan's Corporate Governance Code took effect, the Board of Directors of Showa Denko discussed governance, and I also took part in these talks as the officer in charge. The evaluation of board effectiveness emerged as a key agenda, but we were unable to hammer out a concrete proposal. However, the recent integration provided an impetus for making changes to the authorities and responsibilities of the execution side, and at the same time moves to transform the Board of Directors re-emerged. As part of that process, Chairman Morikawa and the outside directors had open discussions last year, and we are able to settle on a general direction for reform.

**Morikawa** We decided to have free discussions because the atmosphere at Board meetings can get a bit stiff, and we wanted to avoid that.

**Kamiguchi** What we all came away with from the discussions was recognition that the Board always seems to get busy with examining individual projects or transactions, leaving no time left for deep-diving into major themes that will affect the company's value over the medium to long term. We also agreed on the need to initiate essential discussions for maximizing Resonac's corporate value.

**Morikawa** Board meeting agendas have undergone a clear-cut change, with topics like monitoring and medium-to-long range planning coming up.

**Kamiguchi** With the Board of Directors transformation, the plan was to start with changes that were easy to make, so last year we set about enriching pre-meeting explanations of agenda items. We made sure sufficient time was allocated to properly explain agenda, and had an appropriate person from the department submitting the proposal, rather than the Board secretariat, give the explanations. We also revised the criteria for referring matters to the Board. Matters to be resolved have to be more important and involve more money than before to require Board authorization. This has reduced the time the Board spends to deliberate on individual projects or transactions and allowed it to pivot its focus to medium- to long-term strategy.

Even though it's a company with more than a century of history, it is, in some way, like a start-up. It's intent on enhancing its value as an enterprise, and all the employees have their eyes fixed on the same goal, which is another exciting aspect. Fostering a great corporate culture and employee motivation will be critical for the success of this "second inauguration."  
(Tsuneishi)



**Tsuneishi** Getting prior explanations of the issues up for discussion has been helpful. And as a by-product of the COVID pandemic, meetings can now be held online, which makes it much easier to get all the outside directors and auditors together at the same time. Arranging face-to-face meetings to suit everyone's schedule would have been a real headache.

**Kamiguchi** During the effectiveness evaluation process, some voiced the view that the execution side and the outside directors ought to communicate with each other more. So, for example, we're thinking of having the outside directors visit our plants and offices and creating opportunities for them to communicate with executives and employees. In this context, I think that your visit to the Stage for Co-creation was a fantastic opportunity.

**Imai** There are lots of other things going on, too, so we'd love you to come and see some other sites.

**Morikawa** Mr. Tsuneishi, since you joined the Board, my impression is that discussions at Board meetings have got a lot livelier. Because in the past, there was a proposal that didn't generate much in the way of opinions.

**Imai** With that proposal, it was made clearer how it would serve to increase corporate value, and this facilitated discussion. And thanks to explanations being provided in advance, there was also a drop in the number of questions aimed at just getting familiarized with an agenda.

**Morikawa** Yes, because there used to be questions about little details such as figures. So, I feel that the discussions have moved up a level.

**Kamiguchi** When discussions are centered on individual projects or transactions, the person putting forward the proposal inevitably tries to defend it, so the directors tend to only ask detailed questions for them to get familiarized with the proposal. But if the theme is raising corporate value, the questions and discussions change. And I feel that this is when big ideas for transforming the company get generated.

## Establishing a management structure and a governance approach that are best suited and most appropriate for corporate value maximization

**Tsuneishi** To increase corporate value in a sustainable way, it will be critical to get all the employees on the same page and moving in that direction, and to magnify that passion across the entire corporate group. And of course, unless employees are happy, the company will never be great.

**Imai** Corporate value is the product of three elements: strategy (including the business portfolio), the individual competencies of employees, and the company's culture, and among these elements, fostering a corporate culture that enables each employee to demonstrate their capabilities is crucial. The world has become so complex that it's difficult to predict what's going to happen next. So, what's required of companies is organizational agility, or the ability of employees to adapt. That adaptability defines the corporate culture. And only when it is embedded in the corporate culture can the company be trusted. I'm looking forward to discussing with Mr. Tsuneishi how to nurture such a corporate culture and maximize corporate value.

**Tsuneishi** Agreed. The objective of maximizing corporate value is shared by every company in the world.

**Imai** We've also made changes in areas such as compensation, but with non-financial indicators becoming increasingly important, more discussion will be needed. And the biggest issue to be tackled is CEO succession, which will be discussed by the Nomination Advisory Committee. We intend to allocate plenty of time to these discussions, considering the unique characteristics of Resonac.

**Tsuneishi** The main tasks of the Nomination Advisory Committee members are to propose the selection or dismissal of the CEO, prepare nomination proposals for the next Board members, and check the effectiveness of the succession plan. Above all, having the authority to propose the selection or dismissal of the CEO means possessing one of the largest and most important powers that a Board member can have. I therefore view discussion as to whom to entrust with that power as vital. Since nomination advisory committees have the power to propose the selection and dismissal of the CEO, it is the norm

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internationally for the CEO not to be a member of such committees. However, President and CEO Takahashi is currently a member of the Nominating Advisory Committee. Resonac has just undergone a major integration and a "second inauguration," and I therefore view the composition of the Nomination Advisory Committee, including the CEO succession plan, as appropriate for "now." Every company is different, and it's important for firms to choose the management structure and governance approach that are best suited and most appropriate for them. That being said, the best way to position for growth inevitably changes over time, so I believe that changes should be made as appropriate in response to the conditions at the time.

**Imai** This year we've deployed SAP Success Factors to make our human resources visible. To start with, we're having potential successors identified for all manager positions in Japan. Business divisions will confirm their respective lists of candidates, and finally all the Management Committee members will review the succession plans for key positions. We're going to do the same for overseas personnel, and will be introducing global grading next year. We are looking to accelerate the establishment of systems and develop talent in an organized fashion to expedite the sustainable growth of our businesses. Regarding the CEO, it's as Mr. Tsuneishi said earlier. I'd like the Nomination Advisory Committee to scrutinize the succession planning process for the succession of officers other than the CEO.

**Tsuneishi** I doubt there's a perfect textbook on how governance structures and advisory committees for areas like nomination and compensation should be organized. Increasing corporate value as the cornerstone of growth requires thought to be given to the question of what the optimal approach to take now to deliver results over the short, medium, and long term would be. This applies to all companies, not just Resonac. This means it's also important to evaluate and reconsider, as appropriate, Resonac's current governance approach and advisory committee structure, as well as the style of having an outside director chair the Nomination Advisory Committee and the Remuneration Advisory Committee. Furthermore, it's crucial to always be conscious of what would be most appropriate in the context of the individual company's situation.

**Morikawa** It's the same for executives, the Board of Directors, and employees in that everyone's aiming for a goal and aiming to get to the top. We're all running together. I'd like people to look at Resonac from that perspective, but a variety of viewpoints are needed, so I think it's important to combine the views of people outside the company, which reflect their own experience up to now, with those of people inside the company.

### What sort of relationships between the Board of Directors and the execution side, and with employees, will Resonac need going forward?

**Morikawa** Resonac was officially launched this year, 2023, though the effective integration took place last year. At the same time, we began discussions with the outside directors on transforming the Board of Directors. This led to the determination of a general direction for the role that the Board, centered on the outside directors, should play in increasing corporate value. To borrow a word Mr. Tsuneishi used, I feel that we developed a shared understanding that the role of the Board is to verify whether measures proposed by the execution side are *viable* in terms of raising corporate value. The key question here is how to develop capabilities for verifying viability. I think improving verification capabilities, including the ability to identify hidden risks, will prove to be a considerable challenge.

**Tsuneishi** Indeed. With every merger or acquisition plan, there's always a wonderful growth plan, but when you actually start taking action, things often don't go according to plan. When this happens, it's imperative to examine what went wrong and quickly and correctly adjust your course.

**Morikawa** Yes, you need to take a look at why the deviation from the plan occurred, and whether the verification carried out by the executive side was adequate.

**Tsuneishi** If further deviation occurs even after verification by the execution side, it would beg the question of whether there's something amiss on the execution side. The executives will find themselves under pressure, being asked what on earth their previous explanations and verifications were all about. The outside directors could have some harsh words for them.

**Morikawa** But by eliciting various opinions in this way, both the execution side and the Board of Directors will be raising the bar for one another.

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**Kamiguchi** Regarding issues that need to be addressed in the future, such as agenda reform and communication, the execution side will first consider them carefully, after which measures will probably be taken through a process of trial and error with input from Mr. Tsuneishi and the other outside directors. So, the first thing that needs to be done is determine an approach and structure for the execution side.

**Imai** As our operating environment and the management issues facing us change, what we need to constantly be thinking about is what is required of us as a management team not in the future, but right now. This means looking at things like who our directors and officers are, and asking ourselves whether the current line-up is suitable. I also want to make the Board a forum for testing out our reform processes in an agile manner through dialogue with our various stakeholders. We will continue striving to enhance our value as an enterprise through co-creation with an even broader range of stakeholders and fulfilment of our purpose of contributing to the protection of the earth's environment and to society. I therefore hope that Board meetings will see plenty of unreserved discussion.

**Tsuneishi** As for nurturing corporate culture, I think it will be good if we can take the best aspects of the cultures of pre-merger Showa Denko and Hitachi Chemical and combine them into one. Also, I often hear that the engagement levels of all employees are being monitored, and that they are being gauged in terms of numerical scores. However, while the numbers coming back from engagement surveys are important, I also think that ascertaining engagement by asking how enthusiastic employees are and what their level of commitment is will ultimately translate into better performance. Fostering a great corporate culture and employee motivation will be critical for the success of this "second inauguration." It will also be important to show all employees what happens when performance improves and what incentives are on offer, as this should substantially increase the likelihood of all employees moving in the same direction.

**Morikawa** The Board of Directors mustn't be allowed to backslide into ritual and ceremony, though conversely, it would be a problem if it became too powerful a presence. I'd like it to be a presence that runs together with the execution side, and I intend to carry on thinking hard about how to make this happen.

