

Roundtable Discussion between Outside Directors



Outside Director
Chairman of the Board of Directors

Aya Shirai



Outside Director

Hideaki Obata



Outside Director

Yumi Sano

On the occasion of Outside Director Aya Shirai's assumption of the position of Chairman of the Board of Directors, we planned a roundtable discussion for the first time in two years. Three outside directors reported on their activities and discussed how the Board of Directors had changed and how they would like to change it in the future.

Renewal of the Board of Directors' structure

Shirai: Following the general shareholders meeting and the Board of Directors' meeting in June, I will become Chairman of the Board of Directors. Compared to inside directors, I do not have much knowledge about Sanyo Chemical's businesses and technologies. However, I'd like to run the Board of Directors in a way that encourages further discussion while continuing to uphold its good points.

Obata: The number of directors has decreased from nine to eight, resulting in an increase in the ratio of both female directors and outside directors. Although the ratio of outside directors has risen with increased diversity, we were not actively conscious of the materiality target of having more than 30% of directors be women and more

than one-third be outside directors. However, it is a positive development that the proportion of comments made by outside directors has increased.

Shirai: Although the number of directors has been reduced by one, that was not our aim.

Obata: The selection of new directors is based on recommendations from President Higuchi, and is discussed and determined by the Nomination and Compensation Committee. However, since it is a voluntary advisory body, the new directors were finally decided after discussion at the Board of Directors. With an atmosphere that allows speedy decision-making and encourages discussion, we have achieved a good balance of inside and outside directors.

A major change in the company's direction

Shirai: As you can see from the MTP 2025, the company's direction has changed significantly over these two years. The poor profitability of the Malaysian group company,*¹ a producer of SAP, had been discussed many times. In FY2023, we finally decided to withdraw from the SAP business. It was a major decision, which was difficult for us to judge on.

Obata: There were four important themes: withdrawal from the SAP business, review of all resin and battery businesses, formulation of the MTP 2025 based on WakuWaku management, and reconstruction of safety and accident prevention measures based on lessons learned from the fatal accident in 2022.

Sano: Before I became an outside director, I had the impression that the company was problem-free. However, at the Board of Directors' meeting in June 2021, I realized that there were serious issues to be addressed. Since the discussions at the Board of Directors' meetings were long and deep, I could not have got through these three years without studying hard.

Obata: Sanyo Chemical has a history of accumulating diverse businesses and has over 3,000 different products. Although each product is not large, the company has grown them into a highly profitable business. Historically, that has been Sanyo Chemical's strength. I believe it has made the choice to return to being such a company once again.

*1 SDP GLOBAL (MALAYSIA) SDN. BHD.

Changes in the Board of Directors

Obata: To achieve growth through small-quantity, high-mix production of high-performance products, board diversity and lively discussion are important. My impression over the past three years is that the Board of Directors has become an organization that fulfills these requirements. It is now discussing the issues that need to be addressed in order for Sanyo Chemical to achieve high profits. I believe we have now created a system in which the Board of Directors can take the lead and drive management.

Sano: When I became an outside director, my impression was that it was a fairly homogenous organization. However, over the past three years, we have had extensive discussions, with Mr. Obata and Ms. Shirai contributing

from various perspectives.

Obata: Since I have a different career path from people within the company, I can offer views from a different angle, but I think there are limitations to what outside directors can do. They have less information than the company's executives. In that sense, my opinion is not necessarily correct, but the current Board of Directors can hold discussions to understand each other's views and ways of thinking and determine the overall direction. I feel that it has the ability to accept and digest the different views of outside directors.

Sano: Although there is a sense of tension, there is no over-familiarity.

Shirai: We can have frank discussions, and it is not infrequent that comments from outside directors lead to the revision of discussion topics or their resubmission at the next meeting after reconsideration outside the meeting. Regarding the withdrawal from the SAP business, we discussed 23 topics for a total of over 12 hours in one year. This shows there were a large number of different issues. Each country has its own labor-management and employment practices, and we must make decisions that are highly conscious of human rights in accordance with international rules. It was a very tough year.

Sano: We positioned people-related issues, such as employment, as our top priority, and had many detailed discussions on them.

Shirai: When liquidating overseas subsidiaries related to business withdrawal, we conducted discussions in accordance with OECD rules. We confronted local management, employees, and their countries based on the Sanyo Chemical Group's Human Rights Policy. Mr. Obata made various statements in line with his career history.

Sano: That's true. Since outside directors have different backgrounds, their statements are also varied. While people from the same company tend to see things in the same way, outside directors can add their own views based on their area of expertise. That's the significance of having diverse members.

Shirai: Since we now have executive officers from the manufacturing field, who have not been greatly involved in management, I think the overall balance of the Board of Directors has improved.



Challenge-oriented and transparent management

Obata: “Challenge-oriented and transparent management,” one of our material issues, is the essence of Sanyo Chemical’s management. When diverse people discuss freely with “WakuWaku”, thus influencing the entire company, this leads to creation of the foundation for innovations. It is therefore important that the Board of Directors be composed of diverse people.

Shirai: If the Board of Directors can guarantee a sense of security, it will lead to a culture that encourages taking on challenges.

Sano: The company mission is “Establish a better society through our corporate activities.” However, I wonder whether each director and employee can say how they can contribute to establishing a better society.

Recently, President Higuchi has been saying: “Let’s think of work as our personal business.” This may be easier to understand if you think of it in terms of “Will, Can, Must.” “Will” refers to what you want to do. “Can” refers to what you can do. “Must” refers to what you have to do, which is stated as the company mission. When what individual employees want to do, can do, and have to do all match up, they feel “WakuWaku” and want to take on challenges. This will become Sanyo Chemical’s strength. By drawing out what employees with diverse values want to do, developing what they can do, and helping them feel like they are contributing to society, we can foster a challenge-oriented culture.

Obata: To explain the Sanyo Chemical Group’s direction to various stakeholders, including employees, customers, and local communities, we need to communicate our thinking in easy-to-understand language, rather than using loan words or complicated jargon. That is transparency. Historically, the company has had the power to do so.

Stakeholder engagement as the Board of Directors

Shirai: The company has offered on-site chemical classes for many years and has launched a project to revitalize Kyoto’s traditional industries, using its expertise. It is proactive in engaging in dialogue and exchanges with external parties. Although its steady efforts and interaction with young people in the local community are not easily reflected in figures and are difficult to evaluate, this is what makes the company appealing, representing a step toward the future. This attribute should be treasured.

Sano: Another method to make its activities visible is to create a stakeholder communication map.

Obata: The fact is, we haven’t received such feedback. Although the map hasn’t been created yet, we should put this on the Board of Directors’ agenda to ensure transparency through disclosure.

Sano: Actually, there are various guidelines and frameworks for disclosure, and companies are somewhat overwhelmed.

Obata: In this respect, Sanyo Chemical has clearly decided what is important to it. That’s what makes Sanyo Chemical unique.

Sano: In the Showa Era, a period of steady growth, companies could grow without such standards. Today, in order for Sanyo Chemical to continue to grow in the long term, it must pay attention to issues related to the environment and society so that it may be recognized globally. That is why we need to have a solid foundation.



Human capital disclosure

Sano: Japan is lagging behind when it comes to disclosing consolidated human capital. It has become mandatory to disclose gender pay differences and the female manager ratio in annual securities reports. Although we should understand our current situation, and analyze issues to disclose specific measures, we are only halfway there. Sanyo Chemical’s leadership in DEI will encourage its Group companies to think of this as their own issue. By working together as a whole group, it will gain support from stakeholders.

Obata: Aside from disclosure requests, a database of global human resources information is essential for global management. From a business perspective, it is better to have such a database. If the company doesn’t have one, now is the time to take action. Having data makes global management easier.

Sano: In terms of global management and DEI, a Group company in South Korea*2 has had a female president for two years.

Shirai: A U.S. company*3 has also had an American president for two years. Since the Safety and Quality Conference brings together the presidents of subsidiaries and affiliated companies around the world and many others, outside directors can also communicate with people from overseas Group companies. It is a good opportunity to learn about issues facing local subsidiaries and the concerns of managers in a variety of languages.

*2 Sanyo Kasei Korea, Ltd.
*3 Sanyo Chemical Texas Industries, LLC

Ideal Board of Directors

Shirai: I’d like to continue the good parts of the Board of Directors. In the effectiveness evaluation survey, it received a high average score of 4.6 out of 5 for the question: “Does the Board of Directors discuss and exchange views not in a formal way, but in a free, open, and constructive way?” While continuing the positive aspects, I’d like to make the Board of Directors a place for future-oriented discussions on how to rebuild Sanyo Chemical and how to use people, goods, and money shifted from the SAP business. I’d also like to secure more time for discussion by carefully examining report items.

Obata: The Sanyo Chemical Group’s future management style is a return to its roots. The keys to achieving high

profits with 3,000 types of high-performance products of small quantity and great variety are diversity, “WakuWaku,” and a commitment to profits. Only when these three elements are in place can Sanyo Chemical grow. We must also aim for true growth while keeping an eye on global trends in ESG. I think balance is important. However, there are still issues to be addressed when it comes to a commitment to profits. We are concerned that if more thought is not given to this matter, the very essence of the company’s management may be shaken. Combining the qualitative strengths of diversity and “WakuWaku” with the quantitative strength of profits will improve the company.

Sano: I’d like to speak with an appropriate sense of tension so that the company will still be chosen by society when the current board members are gone and the next generation takes over in the future. When I talk to young people and students, I feel that the criteria for choosing a company involve not just salary, but whether it properly discloses information. To become a company chosen by the next generation, I’d like to change the corporate culture as an outside director so that executives and managers will be more open to the voices of on-site staff. It is important to develop management assistants who can practice management with psychological safety, in a place where people can engage in open dialogue.

Shirai: The Board of Directors shares these concerns about how to develop candidates for directors, executive officers, or managers. In the effectiveness evaluation survey, most respondents cited the development of female directors from within the company as a key issue. This is also a very big mission for us.

