

Round Table Discussion on Corporate Governance

What role do outside directors play in achieving sustainable growth for the Group? Director Yutaka Yokoi, who serves as the Company's leading outside director, Director Tomoko Adachi, who was appointed this March, and President and Group CEO Satoru Takashima held a three-way discussion on the subject.



Tomoko Adachi
Independent Outside
Director

Satoru Takashima
President and Representative Director,
Group CEO

Yutaka Yokoi
Leading Independent
Outside Director

Background to appointment as an outside director and thoughts on the Group

Takashima When I first joined the Board of Directors ten years ago, board meetings lasted around 20 to 30 minutes. Heated discussions on important matters took place at the Group Management Committee, which was attended only by internal officers, and the resolutions were then formally submitted to the Board of Directors. At the time I felt that this must just be how things are, but after I became president three years ago, I began to think about what the Board of Directors should be.

The management issues we are facing have not changed fundamentally over the past few years. This means that we must transform, and be reborn as a growth company. As the saying "Practice what you preach," I thought that we had to make a drastic change to the Board of Directors, and change the mindset of those of us who attend it.

In this newly transformed Board of Directors, I have three expectations for outside directors. First of all, I would like you

to point out frankly when I am wrong, and steering the Group the wrong direction. At the same time, I would also like you to give us advice that will lead to positive change, telling us what will make the Company better. And thirdly, although this may be too greedy, I would like you to lend us your unique knowledge and personal connections as outside directors that those of us within the Company do not have.

Yokoi In my previous job, I had several opportunities to talk with members of the Company at embassies and consulates in China and Turkey. Each time I did so, I got the impression that there was no barrier between management and regular employees, and the Company had a family-like atmosphere. So, I felt very happy when I was approached about becoming an outside director. As a diplomat, one of the key duties of my diplomatic missions abroad was doing everything in my power to support Japanese companies expanding their presence overseas. Our work was linked to the activities of Japa-

nese companies, and it was one of my favorite duties in my previous job. After more than 40 years of government work, I was very grateful to be welcomed into the Company in this way, and to be able to aim for growth in the global market together.

Adachi I think I first met President Takashima through a mutual acquaintance, a little over a year ago. At that time, he talked about the Company's history, spanning over 120 years, and that it was because there is something "outstanding" about Toyo Ink that it has been able to overcome many turbulent times. However, when we consider the future of management, we must not stick to that alone. I think we talked about such topics in relation to the development of our alma mater, which also has a long history.

Later, I remember him asking me why I was so familiar with business management and economics even though I was a doctor. I have been on the front lines of medical treatment and research for more than 40 years, and as the head of a hospital with more than 400 doctors and staff, I have worked to tackle two major challenges.

One is to provide safe, high-quality medical care and services to increase patient satisfaction, and sound hospital management to achieve that. The other is to create an organization and system that improves the motivation of everyone who works at the hospital. Even though there is a difference in scale between medical care and manufacturing, I believe that I can still leverage my experience and knowledge at the Company. Also, as the government continues to promote support for the active participation of women, I had the valu-

able experience of serving as a member of various government expert panels and committees, where I gave opinions, shared understanding, and reflected them in government policies. When I received an invitation from the president to become an outside director, I was very pleased to be able to contribute to the advancement of the Company.

Yokoi I think that the reforms to the Board of Directors that were carried out after President Takashima took office—specifically, the creation of an environment in which outside directors can easily communicate their opinions and criticisms in accordance with their respective areas of expertise, and the preparation of materials in advance of meetings—have been very good in terms of both quantity and quality. We can study in advance, and the fact that we can receive explanatory briefing sessions from the executive side for each item makes our discussions and exchanges of opinions at board meetings more meaningful.

Takashima As you said, I feel that there has been a clear qualitative improvement in the Board of Directors. However, that is only among the members or observers attending board meetings, and does not include employees who are on the front lines of business. So, with the help of outside directors, who have a high level of expertise that is not available within the company, I believe that we will be able to enrich and improve the level of the company as a whole by deepening the level of our communication with employees, such as through lectures and social gatherings.

What is governance, as a global corporate group?

Takashima To increase the effectiveness of our governance as a global corporation, we need to identify progressing and receding risks, and sometimes play the role of stepping on the brakes. To survive and compete in the complex world of global business, knowledge of global risk management is also essential.

Quite some time ago, there was a case in which we were pushed to the brink of prosecution by the US Department of Justice. In the end, the case was settled by out-of-court settlement, but it could have been avoided entirely if we had correctly judged the background of the case, the circumstances of the disputed territory, and the international situation.

Yokoi I think it's quite hard to understand foreign judicial systems.

Takashima Yes, you're right. It was a pathetic performance from start to end, that we charged into the United States with the Japanese logic that they would understand what is right, and got caught up in the local business game where winning is everything. For this reason, I have high expectations for Director Yokoi, who has a wealth of global experience, and for Director Adachi, who has served both as a medical professional and as management in the medical field, which is one of our future key focus businesses.

Yokoi I have been stationed in the United States, Beijing,

Shanghai, Malaysia, and Turkey, all of which are locations where the Toyo Ink Group has bases, and which are strategically important and have a large scale of business. I would be happy to offer my counsel if there are any problems or opportunities, regardless of whether or not they fall within the scope of my role as a director.



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Discussions are currently intensifying with a view to the formulation of the next medium-term management plan. Please feel free to involve us more with the human resources and risks that will influence the Company's future, especially in terms of strategy.

Takashima Thank you, I'm very grateful for that. In fact, we have just launched a study group on the medium-term management plan today, together with young employees. If you don't mind, I would like you to come along and help to deepen the level of their discussions.

Yokoi Embassies and other overseas diplomatic missions have manuals for responding to various risks. They place particular emphasis on initial actions, such as media response. Global risks are basically unavoidable, so what kind of response approach can be taken immediately after a risk materializes? I believe that the creation of such an organizational framework is essential. The Company has a large number of overseas bases, and depending on the location our experience may be insufficient. I believe that in global risk man-

agement it is important to prepare manuals and implement thorough drills and training, and to make the correct initial response as much as possible in any case.

Adachi It is also important to ensure we can keep track of the situation in the workplace on a day-to-day basis. When an organization reaches a reasonable size, there is often a divergence between the reports received by top-level management from the heads of each department and the actual sense of crisis felt by employees on the ground. Ultimately, this affects the motivation and performance of the people working on the front lines. Communication with employees in the workplace is especially important to prevent such divergences.

Takashima I agree. I am often reminded of that by direct dialogue with young employees and visits to our manufacturing sites.

Adachi At our hospital, I would take the heads of the nursing and administrative departments to conduct a general patrol once a month, actually visiting all of the workplaces in the hospital from the rooftop to the first floor. We would ask the people working there—everyone from veterans to young employees and part-time staff—if there were any problems, if things were going well, and if they were enjoying their work. Everyone is always very happy when you do that, and it allows you to reconcile the content of the reports with the actual situation in the workplace.

When considering how to increase the effectiveness of the Board of Directors, I believe that if we have a communication system that enables members of the Board of Directors—including outside directors—to directly hear the voices of employees in the workplace, then we will be able to improve the Company even further. In addition to specialized business aspects, there are many things you can ask about topics such as sustainability, D&I promotion, and work styles in each workplace. Communication that improves the openness of the entire organization also serves as a risk management measure.

If you leave what you can do 100% to the younger generation, they can only do 70%. Even if you think it's not enough, you have to be patient. Training people requires patience and perseverance. But I think that eventually they will realize that they are where they are today thanks to our patience, and this will be fed back, which will then lead to the development of the next generation.

Also, even if you can only train people who can do 70% of what you do in the beginning, if you can train three such people, they will still be able to do more than twice as much as you, so you can work on other things. I think this is a common aspect of human resource development in general.

Takashima There is data that is a little worrisome in terms of human resource development and strengthening human capital. In our employee satisfaction surveys over the past few years, the percentage of employees saying they feel they want to continue working at our company has been gradually decreasing. This may be due to the problem of the desire among young people to change jobs, but I think there is a more substantial problem.

We are actively engaged in sustainability activities for employees, such as health management and human resource development. We are also trying to promote D&I more strongly in the future. But beyond such internal mechanisms, anxiety about our profitability, growth potential, and potential for the future may also be reflected in the survey data. That's why I feel strongly that I want to clearly display a transformation for our growth and make our employees feel that we are a company that attracts them, rather than simply holding them down.

Yokoi I think it is important for us to further increase profitability and make Toyo Ink an attractive company. On the other hand, the growing trend in the number of people changing jobs is not limited to our company. Perhaps young people see the world of job-based employment, and lifetime employment is simply not an option for them from the beginning. In the first few years of your working life, they may want to acquire business skills that can be used at other companies, or in other industries. If so, then one approach may be to aim to become a company that is attractive to human resources wanting to improve their skills.

Takashima I think you're absolutely right. Recently, we have been strongly urging our head office staff to improve their expertise and become professionals. There is the opinion that if a grown employee quits we are losing everything that we have invested in them, but I feel that rather it is important to take a stance of becoming a company with human resource development capabilities, that increases the market value of its employees.

Yokoi I hope that we can raise the level of sustainability of the Company itself—in areas such as health management and diversity—more than ever before, and become a company that is easy to work for, a company that employees can feel proud to be a part of, and a company that they will eventually want to return to, even if they leave for a while.

Adachi D&I encompasses a variety of themes, but I believe that the active participation of women is the most key theme, and not only for Toyo Ink. It can be said that Japan

in particular is lagging behind in the rest of the world.

From my experience as a researcher working to support the government's efforts to enable active participation for women, there are three elements that are necessary for women to play an active role. The first is women's career motivation. The second is understanding and cooperation from those around them and their families, especially the way their superiors think and act. These are of the utmost importance. Finally, there is the mechanism of social support.

But even when we say "women" collectively, not everyone is the same. Some women want to have enough time to become pregnant, give birth, and raise children, while many wish to return to work quickly and continue their careers. We should eliminate the stereotype of giving female employees who are working shorter hours for childcare light or low-responsibility work, and it is important to create a system that allows both supervisors and teams to support them in a form that everyone can agree with as an organization where the female employee can work in the way she hopes.

Recently, D&I has evolved globally into Diversity, Equity and Inclusion (DE&I.) It describes initiatives to deepen mutual respect and understanding, exchanging diverse opinions beyond the boundaries of gender, age, experience, work history, and job titles. We should not expect to have a stereotypical female opinion by asking one female employee you see in the meeting, with a question like "What do women think about this?" This is the first step in DE&I.

Takashima Yes, it is important for men to be aware of this. Thank you. For me, outside directors are important supporters, who support the growth of the company and act as a braking mechanism when we are going astray. It was a really great to hear from both of you. I look forward to your continued support.



What is the role of outside directors, based on the integration of business and sustainability?

Yokoi When considering how to train the next generation of corporate leadership, it is said that the difference between Number 1 and Number 2 is astronomically different from the difference between Number 2 and Number 3 and below. Top-level corporate management requires the special qualities of being able to take a top-down, bird's-eye view of risks, opportunities, and management issues from a long-term perspective; to make decisions and produce results on their own. No matter how much you play the role of Number 2 or Number 3, it is not easy to cultivate top-level leadership qualities. I think one way is to entrust candidates to experience the Number 1 spot and ultimate responsibility for various locations and duties, to experience and compete for results.

It is also equally important to develop not only top-level

leadership but also a competent team of assistants who can support them. I feel the need for a development program for other officers, the same as with the development of top-level management. This is a topic that I would like to discuss with you as a future issue.

Takashima I was appointed head of our subsidiary in Thailand at the age of 43. At that time, the Thailand location was a large-scale base with more than 300 people in total, including production, sales and engineering, and my time there became a great source of experience for the future. As the responsibilities of the president become heavier in the future, we are starting to talk about considering not only a training plan but also a practical plan, sending candidates out into the world and saying, "We'll leave it up to you."

Adachi That kind of delegation is very important, isn't it.