

Roundtable Discussion with Outside Directors

# How to Achieve Sustainable Growth

Daicel celebrated its 100th anniversary in 2019. Over the course of its long history, it has nurtured its signature Monozukuri\* Spirit and corporate culture of constantly seeking new challenges. With these qualities as its assets, what should Daicel's goals be for the next 100 years? Three of our outside directors from different backgrounds and Kotaro Sugimoto, the representative director of Daicel Corporation, joined in this roundtable discussion to share their evaluation of Daicel's corporate governance and culture as well as its needs in terms of focusing on a response to the challenges of society.

\*Although the literal meaning of the Japanese word "Monozukuri" is "making things," we have defined "Monozukuri" as creating new value through all corporate activities.



**Masafumi Nogimori**

Outside Director, Chairperson of the Nomination and Compensation Committee  
Retired as Chairperson and Representative Director of Astellas Pharma Inc. before becoming a Company director

**Sonoko Hacchoji**

Outside Director, Member of the Nomination and Compensation Committee  
Outside Director of Japan Airlines Co., Ltd., Outside Director of Maruha Nichiro Corporation, Special Advisor to the President of Tsuda University

**Junichi Mizuo**

Outside Audit & Supervisory Board Member  
Representative Director and Chairperson of the Japan Compliance & Governance Institute, Honorary Professor at Surugadai University; specialized in CSR, corporate governance, business ethics, and marketing ethics.

**Kotaro Sugimoto**

Representative Director, Member of the Nomination and Compensation Committee, Member of the Management Advisory Committee. He joined the Company in 1984 and served as the head of the Raw Material Purchasing Center before becoming representative director and Senior Managing Executive Officer of the Company.

## Evaluation of Daicel's Corporate Governance

**Nogimori** Daicel operates an effective, well-balanced corporate governance structure. In my opinion, it compares favorably with its competitors. Board of Directors meetings are conducted in a very open atmosphere, and members are carefully chosen to ensure well-rounded conversations. The Company has a system in which the Audit & Supervisory Board Members can grasp the actual situation through on-site audits and reflect the results in corporate governance.

**Mizuo** The health of Daicel's corporate governance can be assessed from the two perspectives of its validity and efficiency. What I mean by its validity is whether it ethically and legally makes sense. From this perspective, I can confidently say that Daicel has a healthy corporate governance structure. From the perspective efficiency, the government structure, which is built on the principle of separation of ownership and management, is functioning well and effectively facilitates decision-making. Most notably, Daicel tries to genuinely evaluate the effectiveness of its Board of Directors, not as a mere formality but by conducting

questionnaire surveys and interviews with all directors. The chairperson of the board is also an excellent listener with the ability to encourage lively discussions. He ensures that each issue is heard and thoroughly discussed so that the efficiency of the decision-making process is secured.

**Hacchoji** Half of Daicel's Board of Directors are outside directors, and more than half of its Audit & Supervisory Board Members are outside members, which clearly indicates Daicel's commitment to seek external opinions. The discussions that take place in the Board of Directors meetings are both open and disciplined and convey a sense of being well-balanced. I feel that everyone on the board is committed to making Daicel a better company by openly discussing things that are going well and those that are not. Moreover, I can confirm that Daicel has a genuinely effective governance structure.

**Sugimoto** I have spent my entire career in chemical manufacturing. For me, these honest and diverse viewpoints from outside directors, who possess a wealth of experience in wide-ranging fields, is very valuable and enlightening.

**Nogimori** The Company considers that many of the directors are outside directors. Therefore, the Company asks

them to take ample time to learn about and keep up to date with Daicel's business activities so that when they discuss various matters they are familiar with the issues the Company currently faces.

**Hacchoji** The same can be said about the long-term vision and medium-term strategies that are kicking off in 2020. We were involved in the process of formulating these strategies, which took more than a year and involved many discussions and deliberations. Because we were involved from the planning stages of these long- and mid-term strategies, we understand them very well in addition to the various factors that might impact them. I trust that our future discussions will be even more productive and meaningful and contribute further to the successful implementation of these strategies.

**Mizuo** For matters of importance, the officer in charge goes through the details with us in person. This aids us in understanding what the Company is trying to achieve and helps our discussions become more productive. Daicel is very dedicated to maintaining a high level of transparency and accountability.

**Sugimoto** We try our best to have outside directors visit our business sites, both in Japan and abroad, so that they can

personally experience who we really are. It is important for them to see how we operate.

**Nogimori** I have visited Daicel's plants and have also had the opportunity to talk to their employees about the principles of safety and leadership. A company that provides outside directors with opportunities to talk to its employees is truly an open company.

**Sugimoto** Our employees also experience hearing from an outside director as a great opportunity, since they do not typically get a chance to meet them. We hope these interactions will help you continually deepen your understanding of our on-site operations, risk management, and other activities. Company management, on the other hand, will do its best to apply your abundant knowledge and experience.

## Current State and Future Goals of Diversity & Inclusion

**Hacchoji** I also visited several of Daicel's plants and had opportunities to speak with a few of the female employees

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there. I was delighted to see these young talents, who may one day realize their career goals by taking on leadership roles. On the other hand, I see diversity and inclusion, particularly female advancement, as one of Daicel's major challenges.

**Nogimori** Daicel has the foundation to be a diverse organization, but the fact that many of its positions involve on-site operations is slowing its progress in female advancement. Why do you think it has been difficult to develop female leaders?

**Hacchoji** Regardless of gender or nationality, leadership development takes time. The Company needs to raise up leaders by exposing them to a wider range of operations in order to broaden their knowledge as well as by increasing their responsibilities, giving them opportunities to take ownership of issues, and allowing them to solve them on their own. Daicel has an action plan for increasing the number of women in management positions. The plan is very encouraging in that it eliminates bias toward women, and the goals outlined in the plan have been successfully achieved every year. In fact, a female manager is in charge of the cutting-edge medical device "Actranza™ lab." This provides just a glimpse of Daicel's commitment to the issue.

**Sugimoto** Thank you Hacchoji-san for pointing that out. We are trying to increase the ratio of females in our new graduate hiring pool and have recently placed a woman in a leadership position in Healthcare SBU, an area in which we can benefit even more from a woman's perspective. We have also been running the Nadeshiko seminar for the past three years as a training program for specifically developing female leaders.

**Mizuo** Having more female leaders in management positions is very important, but since Daicel is a global company with a large global footprint, it probably should consider having international members in its Board of Directors as well. Daicel should approach diversity and inclusion from many different angles.

**Nogimori** Human development is also key for increasing the Company's global footprint. We should consider incorporating aspects of human development into our ongoing business activities. For example, if Daicel's domestic employees communicated every day with their global counterparts, they would all gain a deeper mutual understanding and have greater influence on each other, which would in turn further strengthen Daicel as an international company. It is up to the management team to

develop this kind of human development approach.

**Mizuo** Since Mr. Ogawa became the CEO, the Company has once again been emphasizing its focus on human centered management. The key to managing a company is its employees. We need a workplace environment in which diverse teams of employees feel happy and can perform to the best of their abilities. Servant leadership, a management style whereby managers provide particular kinds of support to their employees, may help Daicel move toward this goal. In this management style, employees focus more on their customers and making them happy instead of making their managers happy. When this matures into a corporate culture where employees are always focused on what is good for customers and society as a whole, I believe that the company will have a good chance of achieving sustainable growth. The key to becoming a sustainable company is to have employees focus on society.

### Expectations for Sustainable Management

**Sugimoto** In its new long-term vision, Daicel has established a sustainable management policy based on its basic principles. The policy clearly confirms the Company's commitment to becoming a sustainable company and making a greater contribution to creating a sustainable society. What would you like to see Daicel achieve from this perspective?

**Mizuo** I would like to see Daicel assume a leading role in the development of environmentally sound materials. While its market is primarily BtoB, Daicel should think of it as a BtoBtoC market and focus more on what is beyond B, to the end-users, as part of its business activities. Daicel can learn a lot from this and gain important perspectives toward achieving the SDGs.

**Nogimori** I totally agree. Companies are expected to gain a better understanding of what "C" wants and present solutions that leverage existing technologies. Daicel should be more innovative and come up with creative ways to utilize the materials it has. Material manufacturers tend to focus on perfecting the art of manufacturing a single, high-quality material and simply focusing on producing it for many years. I look forward to seeing Daicel break out of that shell and think more from the perspectives of customers and society



to come up with innovative ways to utilize those materials to provide better solutions.

**Sugimoto** It's very true that Daicel has been focusing on manufacturing. We actually pride ourselves in our manufacturing capabilities, but at the same time we recognize that we have not been paying enough attention to society and our end-users. We are now shifting the organization toward adopting a more market-in approach in an attempt to build momentum toward addressing this. However, Daicel cannot make it happen alone. In our new long-term vision, we are focused on "co-creation" and taking a big step toward a structure in which Daicel forms partnerships upstream and downstream while collaborating closely to generate new value.

**Mizuo** I hope this willingness to be the market leader and take on new challenges will become deeply ingrained in Daicel's corporate culture and lead to significant innovation.

**Hacchoji** Risk management at manufacturing sites is also a very important consideration. In addition to incurring physical injuries and facility damage, accidents may severely damage a company's reputation. The organization can lose the good public reputation and credibility it has built over many decades in an instant because of one accident. As a chemical manufacturer, Daicel handles hazardous chemicals at its sites, which also has the potential for causing pollution. I am sure everyone working at the plants is well aware of this and understands the importance of risk management. Although there is infrastructure in place for Daicel to monitor these risks, it is nevertheless important to stay focused. This may not be the most exciting and glamorous area to focus on, but it is important all the same.

**Nogimori** In terms of assessing the impact of business activities on the environment, I think Daicel and the material manufacturing industry as a whole is doing a good job. In the area of marine plastic debris, however, I think that it is necessary to raise consumer awareness of the issue. Plastic itself is extremely useful. There must be more Daicel can do to direct consumers toward more sustainable consumption of the material.

**Sugimoto** We will continue to focus on our fundamental

management principles: safety, quality, and compliance. In the area of tackling environmental issues, we are also looking to fulfill our corporate social responsibility by accelerating new material development that can potentially provide solutions to these issues.

### Responsibilities of Outside Directors

**Sugimoto** The diverse opinions we receive from our outside directors during Board of Directors meetings and other occasions are very enlightening. To close our conversation, I would like to hear your thoughts on the roles that outside directors play in Daicel's Board of Directors meetings?

**Nogimori** Companies that are trying to raise their corporate value and sustainably expand their businesses depend on having someone reviewing their operations and encouraging them to move forward. I see outside directors as playing the latter role, as private supporters that encourage Daicel to move forward.

**Mizuo** I hope that by sharing my experiences and my theory-based achievements in relation to business ethics and CSR, I am doing more than simply fulfilling the role of Audit & Supervisory Board member and monitoring Board of Directors meetings.

**Hacchoji** Outside directors need to be able to see matters from two perspectives, from a birds-eye view monitoring overall business management and from the ground up perspective of an ant, digging into the tiniest details. With your feedback into Daicel's business activities as well as my own past experiences, I hope I can act as both a bird and an ant, viewing the Company from their perspectives and contributing to Daicel's healthy and continuous future growth.

**Sugimoto** Your comments have really enabled us to see things from a broader perspective. We were reminded of the vital importance of incorporating these external insights into Daicel's business management. Thank you very much for your time today.