

We asked the two Independent Outside Directors, who were appointed in June 2021, about the initiatives they undertook in their first year as well as their respective views on Nikko’s sustainable corporate value creation.

Date of the discussion: August 10, 2022 Location: Conference room at the head office (Akashi City, Hyogo Prefecture)



Q. How have you been contributing to the corporate value creation of the Nikko Group?

Ishii : As I had worked overseas for many years as a diplomatic official, I recognize that the Group expects my insights regarding international affairs and geopolitics as well as knowledge of the Asian region, where Nikko is strengthening its business foundation. With the domestic market maturing, the Group, in order to focus on the Asian region as a source of growth, entered Thailand as the core base in the ASEAN market after China, and is steadily laying the groundwork. At the same time, I feel there are issues with the establishment of the framework for overseas expansion. The urgent task ahead is to expand the

battle-ready human resource pool for the overseas business and to build awareness that would break down the wall between the domestic and international operations. I started an online class, held once a month, to raise the employees’ interest in international affairs. It is a relaxed seminar in which any employee can participate. And given the impact of Russia’s invasion of Ukraine and the Shanghai lockdown due to COVID-19 on Nikko’s business activities, the participants are highly motivated, which is encouraging.

Saeki : I believe there are expectations on my experience as an entrepreneur who built an IT company as well as my ability in promoting diversity from the female standpoint. In the construction machinery field, having fewer number of female

employees is understandable. However, there still remain shades of the traditional Japanese manufacturing industry, and I feel there is a kind of gender bias that deems on-site work to be impossible for women because it is dangerous. It is necessary to create many workplaces where women, who lack in terms of physical strength, can participate actively through the promotion of DX, and I believe I can leverage my experience and knowledge for that.

I did not have opportunities to interact with employees on-site during the first year, partially due to COVID-19, but this year I would like to listen to the voices from the work sites, especially of female employees. As for the gender issue, I would like to aim for a level comparable to other companies listed in the Tokyo Prime Market over the long term. The ratio of women among new hires is also rising with each passing year, which gives hope, but at the same time, I believe it is imperative to take drastic measures such as hiring female managerial positions from outside the company.

There is a career program for students instituted by Hyogo Prefecture, where a team formed of several female students prepare proposals based on a theme provided by a company in the prefecture. I was able to have Nikko participate in that program. It will be an opportunity to objectively learn how present-day female students perceive Nikko, and there could also be suggestions as to the approaches to take when hiring females.

There is data that says people who are highly interested in SDGs are open-minded about relocating to rural areas. I feel this is a tailwind for Nikko, given its seriousness in tackling the social issue of carbon neutrality and the fact that it is based in the city

of Akashi, which offers excellent child care support.

Ishii : It is necessary to raise the name recognition of Nikko to hire diverse human resources, including females and students with interest in working overseas. The fact is that Nikko is not that well known, despite having an overwhelming market share in an especially important industry that is responsible for infrastructure development. Human resources are the source for long-term growth, and therefore I intend to deepen the discussions in the Board of Directors Meetings as to what can be done to grab the attention of potential job seekers regarding Nikko’s business, while also considering cost performance. Since Nikko has embarked on re-drafting its corporate philosophy and comprehensive reforms of its personnel system, it is a good opportunity to not only actively appeal to the capital market but also to the labor market.

Q. What do you think of the contents that ought to be discussed in the Board of Directors Meetings and the dynamics of the debates?

Saeki : I have requested to slightly advance the timing of providing information in order to energize the discussions. There were times when large volumes of documents were provided on the eve of the board meeting, and I felt it was difficult to sort out the issues given the time constraints. In addition to providing the materials in advance, if we can get the briefing directly from the persons in charge, it would deepen the discussions as we would be able to sufficiently understand the points at issue.

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Ishii : Another option to secure enough time for discussions is to reduce the number of agenda items. If the Outside Directors can attend the executive officers' meeting held prior to the Board of Directors Meeting as observers, we would be able to deepen the understanding of the reasoning and background of the presented agenda item, which I think is worthy of consideration.

Saeki : One of the important decisions made in the previous fiscal year was the acquisition of Ube Kohki. I believe we were able to discuss the risks and opportunities by having sufficient time. At the same time, I also felt that more time could have been spent on discussing the post-merger integration process including the alignment of corporate cultures.

Ishii : M&A is an important option for strengthening the business foundation and for identifying new businesses, and we are seeing an increase in agenda items that call for major decisions. Of course, it is possible to consider the increase in agenda items positively as being prepared for taking the risks necessary for growth. I hope to engage in lively discussions regarding matters such as the realization of carbon neutrality stated in the long-term vision, progress towards transforming the business model through DX, and measures to tackle newly arising issues. I can deeply feel the spirit of “we will set high goals and take on new challenges” coming from the company's directors led by the president. So, I hope to actively offer opinions from a perspective that is clearly distinct from Nikko's perspective.

Saeki : How to drive forward DX is quite an important discussion point. As DX is the core of business model transformation, a certain level of internal manufacturing is necessary. If you rely too much on external vendors, you will lack in speed and flexibility. It is important that managerial staff with knowledge of IT take the lead at the development site. Simultaneously, it would be good if all the employees visualize their work and ensure that whatever could be automated is being carried out with the help of IT. In order for a company to promote DX, it is imperative that all employees also engage in DX of their own issues. If you write down the business process in the form of a flow chart, it will reveal concrete issues such as how much you are still doing manually, inter-divisional transactions that no one noticed existed, and processes that can be done in one-take by using an automated implementation tool. Automation improves efficiency, while identifying needless work raises operational efficiency. With all employees getting used to DX, Nikko's DX progress will also gain speed. If DX makes progress, it would become easy to address the issues of labor shortage and diversity, and I think this point should be discussed at the Board of Directors Meetings.

Ishii : There are two themes I would like to discuss at the Board of Directors Meetings. One is the measures to enhance the human resource pipeline upon expanding the overseas business. It is necessary to hire overseas-oriented human resources, develop nurturing programs including on-the-job training, and establish career paths centered on overseas business fields. Nikko will have to start preparing from here on forth so that

a shortage of overseas human resources does not become a bottleneck for growth overseas. Another is the public relations activities aimed at raising the social visibility of Nikko. I feel more efforts need to be made toward getting more and more people to know that Nikko is a company that is supporting the prosperous lives of people both in Japan and abroad.

Q. What are your views on the successes and issues of Nikko's sustainability initiatives?

Saeki : I think it is important to raise the job satisfaction of employees. It would be difficult to sufficiently increase the job satisfaction of mid-level and young employees with conventional human resources management that are premeditated on mass hiring fresh graduates, the seniority system, and lifetime employment. As Nikko is in the midst of discussing comprehensive changes to the personnel system, I am looking forward to the upcoming changes. It is also necessary to simultaneously promote the development of employee-friendly workplaces. As the requirements for being employee-friendly vary depending on the life stage of the employee, if an employee is able to choose a workstyle that suits his or her situation, their motivation would also rise. If the starting time is restricted to 8 a.m., there may be people who are put off by that alone.

Ishii : I believe job satisfaction will increase if a person has choices and a sense of security that he or she can work autonomously. In my previous workplace at the Foreign Ministry, it was natural to work overseas regardless of gender or the place or time. Now, however, they accept individual situations such as not being able to take overseas responsibilities because of the necessity to provide care to a parent. At the same time,

there are people who are not worried about transfer and are eager to work overseas. So, if the company is able to offer opportunities for self-realization and growth that correspond to their respective situations, employee engagement will also improve. As for gender diversity, while we are waiting for internal appointments of female managerial staff, the reality is that the available pool is limited and it is likely to take time. Meanwhile, the ratio of women among new graduates hired by Nikko has been increasing by the year. The management also are keenly aware of the issue and we are seeing a certain level of success. As Ms. Saeki pointed out, promotion of external human resources is also an effective option. It will be a major advantage for female employees who joined Nikko as new graduates to have a familiar role model they can relate to.

Saeki : When thinking of Nikko's sustainability, it is very important to have the perspective of whether or not it can be the “company of choice” of its stakeholders. Along with being chosen by the customers by offering new values such as our contribution to the realization of carbon neutrality, we need to keep asking ourselves what is necessary for constantly being chosen by the employees, suppliers, investors, job seekers, and local communities.

Ishii : What I felt through the discussions at Nikko's Board of Directors Meetings this one year is that the company has vitality, ideas, and technical prowess, and all the necessary elements for supporting sustainability. In my second year, I would like to confirm what I felt in the Board of Directors Meetings through the exchange of opinions with those working on-site. I am also paying attention to the process through which the new personnel system becomes established by winning the understanding of the employees.

