

Dialogue between the President and an Outside Director

President Yoshikazu Oshimi sits down with Koji Furukawa, an outside director appointed in 2015 who has extensive experience in corporate management and is chairperson of the Governance Committee, to discuss corporate governance at Kajima and medium- and long-term issues for sustainable growth.



Yoshikazu Oshimi
President;
Representative Director

Koji Furukawa
Outside Director

Four Years as an Outside Director

Oshimi: Four years have passed since your appointment as an outside director. Would you care to share your frank opinion of that experience?

Furukawa: I have had numerous opportunities to serve as an officer or outside director at many companies, and the people at each of them believe that their company is “a little different from ordinary companies.” Certainly, each company may have a different corporate culture because of its history or background, but management should not be that much different. All companies must compete according to the same rules—this is the viewpoint that has informed my four fascinating years with Kajima.

Oshimi: What is your assessment of Kajima’s Board of Directors?

Furukawa: Needless to say, the Board of Directors is an important decision-making body at any company, and the processes that govern its operations and decision-making are very important. Kajima’s Board is superbly organized and has a well-conceived agenda, which facilitates understanding among outside directors. However, the real question is whether that will continue to be the case in the future. At first, a lack of familiarity with industry terms meant my input tended to take the form of questions, but over the last two years in particular, I have expressed my opinion more freely. For example, business performance is a part of the Board agenda. Naturally, performance is important to Kajima as a corporate entity, but perhaps Kajima’s Board devotes too much time to discussing single-year performance. The numbers are a report card describing past performance, but a company is always moving into the future. Results are a snapshot of the past; management needs to look at the past as a platform for the future or else those figures are of limited value. I would suggest that Kajima needs to increase discussion along these lines.

Oshimi: Was there an aspect of the past year’s Board agenda that left a strong impression on you?

Furukawa: Strengthening compliance is one key goal of the Medium-Term Business Plan, but I have always said that compliance should take priority over everything else. In the first place, a fundamental element of compliance is that people fulfill the responsibilities expected of their position. Simply equating compliance with legal/regulatory compliance is short-sighted,

because legal/regulatory compliance is only the bare minimum level of compliance. Together with risk management for dealing with problems and losses that may materialize, compliance is absolutely critical for management. In addition, I have stated that Kajima should make intentions transparent both inside and outside the Company when making organizational changes or establishing internal regulations. To that end, Kajima established the Compliance and Risk Management Committee by reorganizing and strengthening previously existing bodies based on Board discussions related to compliance. Another significant achievement in strengthening compliance was the formulation of the Kajima Regulations for Preventing Collusion based on the review and integration of various existing rules and regulations.

Oshimi: You chair the Governance Committee, which Kajima established in December 2018. Can you comment on the nature of committee discussions and future themes?

Furukawa: The committee has met four times so far. In principle only outside officers are members, so one of the committee’s best points is that it can instigate discussions that would not normally originate from within Kajima. Recently we have devoted significant time to discussing executive remuneration. Outside directors with differing backgrounds referred to examples from other companies and exchanged various opinions about remuneration standards, the proportion of remuneration that is variable, and remuneration according to position. We then shared the results with the Board of Directors.

Oshimi: Governance Committee proposals also led to the introduction of stock remuneration for officers.

Furukawa: Immediately after my appointment as an outside director, I suggested the establishment of an officer shareholding association so that officers could purchase Kajima shares. The rationale for introducing stock remuneration is the same. Stock remuneration ties compensation to stock price, which is linked to business performance, thereby incentivizing officers to increase the price of Kajima shares, supporting increased corporate value over the long term while aligning values with those of stockholders. Of course, remuneration is not the only important governance issue, so my intention is to deepen discussions on succession plans and other items and make appropriate recommendations.

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I would like employees to apply their collective knowledge to new challenges as we prepare ourselves for the coming era.

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Medium- and Long-Term Issues for Sustainable Growth

Oshimi: Without doubt, times are very good for the construction industry. Times were tough when I became president in 2015, but we managed to maintain the profitability of contract awards through our Medium-Term Business Plan (Fiscal 2015–2017), under which we adopted a different approach called front-end loading at the contract award stage. Specifically, this is a smarter, more systematic approach where we are able to harness our collective knowledge prior to the commencement of a project. This generates high added value, increases customer satisfaction, and avoids competition on price alone. In addition, we improved the structure of our domestic construction business, and promoted assiduous risk management during construction. The beneficial outcomes and favorable market trends overlapped, which has supported strong performance in recent years.

Furukawa: In the building construction business, actual results often greatly exceed targets, but this is not necessarily a good thing. Projects where this is the case require even greater attention than those where the reverse is true. Conservatively set targets do not really have much value.

Oshimi: I agree. We need a sense of urgency in this regard. To a certain extent, of course, it is possible to evaluate the profitability of a construction project before work begins. I am concerned that the unprecedented numbers right now are clouding perceptions in the construction industry as a whole. We really need to think about what we should do to ensure earnings when competition intensifies in the future.

Furukawa: Toshio Doko, a former chairman of Keidanren, once said, “Plans are intentions for the future. They have to be way ahead of the present, even seem impossible or

unattainable. A plan that is a reasonable, attainable extension of the present is just a schedule.” A schedule is different from a plan. A plan should have high goals, and move forward with a realistic budget. If the goals are beyond reach, the plan needs a bigger budget. Divisions should talk with one another as they move forward. Lack of discussion due to complacency can be an indicator that decline is setting in.

Oshimi: First, we need to proactively invest in technology development to improve productivity, and we have made this part of our three-year Medium-Term Business Plan. For example, front-end loading entails a great deal of effort, but we can make it more efficient and functional. Further introduction of BIM and CIM is a large part of that. Our greatest challenge will be to achieve the Kajima Smart Future Vision. The vision outlines super front-end loading in which we simulate the completion of all work before the start of construction, with half of the work performed by robots, half of project management done remotely, and digitalization of all processes.

Furukawa: What about operations outside Japan?

Oshimi: The building construction and real estate development businesses outside Japan are now a vital source of revenue as a consequence of localizing these businesses from an early stage. The key to continued earnings will be deploying technologies developed in Japan to infrastructure-related business outside Japan. Specifically, we would like to invest in a localized framework that generates recurring profits after construction, rather than simply withdrawing from countries upon completion of a project. This will be a component of our next Medium-Term Business Plan.



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The Kajima Group should consider freely discussing its future vision and direction at all levels.

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Furukawa: Although some overseas projects have not worked out, failure is but a stepping stone to success. It is important not to give up because of failure, but to take corrective action. In the past, perhaps there has been insufficient understanding of local legal issues, business practices or government administrative systems, so I suggest strict reviews of documentation to ensure that contracts are watertight. Profit is proportional to the magnitude of risk. In other words, risk is the price of profit. How to control and mitigate risk is a requisite issue.

Oshimi: We should conduct in-depth studies on the countries we operate in to create mechanisms and overseas offices that produce sustainable earnings. How can we establish a locally

rooted presence through infrastructure-related business that is complementary to our building construction and real estate development businesses? Finding the answer to that question will empower our businesses outside Japan to support operations in Japan. For our infrastructure-related business, we need to look at capital alliances, M&A and other approaches in our dealings with in-market construction companies, as well as ways to deepen our involvement in those countries.

Furukawa: That is absolutely necessary. The situation will differ by country, but locally rooted operations will support the creation of a portfolio that generates significant benefits for Kajima overall.

Expectations of Kajima for the Future

Furukawa: Naturally, Kajima seeks to remain a leader among general contractors in Japan, but its presence can only diminish if Kajima confines itself to that industry. I advocate freely discussing the Group's future vision and direction at all levels, extending far beyond Kajima Corporation alone. The trading company where I spent a large part of my career, Mitsubishi Corporation, also experienced changes in its operating environment, including economic and social changes, and changes in laws and regulations. When those kinds of change took place, Mitsubishi's management adopted a decisive approach to screening businesses and continually evolving work styles, organizational ideals and rules. The Mitsubishi Corporation I joined at the start of my career is today the same in name only. Although its businesses may appear similar on the surface, they have completely transformed. Companies now have a strong obligation to focus on ESG measures. Just as Kajima has made an

admirable contribution to the development of Japan through its businesses in accordance with its corporate philosophy, I urge the Group to help resolve domestic and global social issues while embracing change to grow. This will lead Kajima to glory once more.

Oshimi: Thank you for your comments. ESG measures are an indispensable component of sustainable corporate growth, and we want to manage the Company from a long-term perspective and with full awareness of social and global environmental issues, as represented by the United Nations' SDGs. Kajima is performing well at present, and we see this as a great opportunity to prepare for the next era. Starting with the various initiatives for achieving the goals of our Medium-Term Business Plan, I would like Kajima to continue to be a company where employees apply their knowledge to consistently take on the challenges of the future in 2030, 2050 and beyond.