

Dialogue between Chairman Mitsuyoshi Nakamura and Outside Director Koji Furukawa

Kajima appointed three outside directors in June 2015. Outside Director Koji Furukawa, who brings a wealth of experience in corporate management, sat down with Chairman and Representative Director Mitsuyoshi Nakamura to talk about where Kajima stands today and the issues it faces.

Looking Back over the Last Year

Nakamura: It has been approximately one year since you were appointed outside director. I know that you have attended fiscal-year kick-off meetings at several branches throughout Japan and visited construction sites in person. What is your frank impression of Kajima?

Furukawa: In fact, with my previous company, I once had to commission a construction project, so now I am in the opposite position. The corporate culture at Kajima is completely different from anything I have experienced. It is hard to put into words, but just take, for instance, the spare, no-frills design and the simple presentation of the interiors at Kajima's head office building; it is unlike companies I have seen before. This matches my perception of the Company after one year: Kajima seems very straightforward and unaffected, and at the

same time serious and sincere. It actually makes me feel like I am in a world of *sumi-e* (a kind of purist Japanese painting done with plain black ink), which is somehow familiar and comfortable to me.

Nakamura: I'm pleased to hear the company described as straightforward and unaffected. What do you think of how the Board meetings are run?

Furukawa: The documents for the Board meetings are very well-prepared. This also reflects the seriousness and sincerity that pervades the company. I am also struck by this sincerity when I interact with Kajima's employees. On the other hand, though I do appreciate the work that goes into preparing all those documents, it can be a lot to read through every time. We should always strive for simplicity, although of course there are limits. I would like to suggest using more technology in the Board meetings, for instance to make it possible to view all the information on a screen. This year I wanted to visit Kajima's branches throughout Japan, and I attended the fiscal-year kick-off meetings at the Architectural Design Division and several branches. There were always two sets of voluminous documents at these meetings—a report on the head office meeting, and one for the branch departments. And actually much of the information was from the head office, but was summarized differently by branches. When you think about it, the head office should provide a single concise summary document

for all the branches. The fiscal-year kick-off meetings seem to be deeply ingrained at all of the branches as an annual event. It was interesting to attend the meetings, as I could witness ideas and approaches unique to each branch. At the Architectural Design Division meeting, there was a strong sense of creativity and less conformity among the attendees, compared with the meetings at other branches. At the Tohoku Branch, the meeting generated a lot of reactions, including pointed questions, which made it quite meaningful.

Kajima from an Outside Perspective

Nakamura: I truly value your fresh input on the meeting documents. This is something that we had just taken for granted. Do you find the Board meeting presentations easy to understand?

Furukawa: Yes, the presentations, including the pre-briefings, are very detailed and easy to understand. The budget execution (monthly management data from each branch) is presented from various perspectives and is easy to grasp. I am very interested in the process that each branch uses to track communication with its construction sites as it gathers data for contract awards and profit projections. I will ask them about this in more detail, next time I visit.

Nakamura: The way Kajima is structured, there are construction sites, project managers, branch managers, and then the president. The branch managers have a lot of authority and have to make major decisions about contract awards based on the situation under their supervision. And once a construction project starts, the entire company backs the project manager so that he or she is not isolated. These processes impact profits, and I have been focusing on improving them since the time I served as president.

Furukawa: In addition to encouraging employees to work hard, the company has to find other ways to boost employee motivation. I have said this repeatedly, but the company needs to clearly reward performance and penalize poor results. This will ensure that individuals and organizations are recognized for good results and held accountable when things go wrong. We must ensure that annual assessments help motivate employees in the following year. We need to develop an assessment system that accomplishes this, so that we can better develop the individual strengths of each employee.

To put it simply, Kajima could do more to ensure that its employees exercise their full capabilities. Of course, too much emphasis on results can cause its own problems. We need to think about striking a balance and the extent to which we will emphasize results. The role of management is to bring life to structures and systems, not just set them up. The company can better realize its strengths if it has balanced systems in place, encompassing administrative operations and business partners in addition to construction sites.

Nakamura: We have programs in place under our personnel system to reward performance, but the construction sites and projects are pursued as a team,



so we will have to study ways to reward teams for their results. Many people are involved with the construction sites, starting from the contract award all the way through the completion of construction. Markets and regions are also different, so determining the assessment criteria is a challenge.

Furukawa: As you say, there are some challenging aspects to consider. Ideally, the system should also assess intangible accomplishments such as revitalizing administrative departments and building positive relations with business partners, not just hard targets like management objectives and financial targets.

Nakamura: Let's change the subject a bit. How has your image of Kajima changed since you first joined us?

Furukawa: I thought I had a general understanding of what a construction company does, but quite frankly, I had no idea that the approach to revenues and profits was so deeply rooted in the subcontracting systems unique to this industry. I worked for a general trading company for many years, and our work evolved over time. When I joined the company more than half a century ago, our main source of business came from generating fees or commissions from business transactions, and we were forbidden from getting involved in risky businesses. There were twists and turns along the way, but now that company is running its business with exposure to risk, investing in and managing a range of business and companies from upstream to downstream. Kajima needs to examine how it will change and grow beyond subcontracting, and think more about where it will invest its profits.

Nakamura: Early in my career, we started to acquire land on behalf of our clients, construct buildings on the land, find tenants to occupy the buildings, and provide services to help the owners to lease their buildings. It was challenging at the time, but it was an important process to go through in order to secure construction work. This is how all of these processes came to be a part of our core business, which we call the real estate development business today. This kind of experience has enabled us to grasp the needs of clients and expand the reach of our work, which, in turn, helps us to develop our future business.

Expectations for Kajima

Furukawa: When I look at Kajima's history, I think the second president, Iwazo Kajima, diversified Kajima's business, while his successor, Seiichi Kajima, reorganized and streamlined the company. Later, Kajima would also go through successive periods of expansion and contraction. Mitsubishi Corporation, where I worked for many years, essentially went through the same thing. The company was dissolved shortly after World War II under Occupation policies, but was reassembled in 1954. The founding family was no longer involved in running the company from that point on, but the corporate culture and loyalty to the Mitsubishi brand that was cultivated by four generations of



family management, starting with the founder Yataro Iwasaki, remained deeply embedded in the company. There is the same sense of loyalty at Kajima, and I feel the strong ties between us and the good fortune that the two companies share these essential similarities.

Nakamura: As you say, a corporate brand is a result of much history and requires long-term cultivation.

Furukawa: At the same time, it is a separate challenge to maintain the brand while still adapting to the times. Let's consider the possibility of Japanese construction firms being acquired by foreign companies. Japanese construction firms have advanced engineering capabilities, and if they are profitable and trusted by clients, then it stands to reason that foreign companies might try to acquire them. Kajima should be in a strong enough position to be targeted for acquisition. I have great expectations for Kajima, and see it as having significant potential.

Nakamura: Thank you for the strong vote of confidence. We have appreciated your fresh perspective and critical feedback on our Group management over the last year.

Furukawa: In the projections and earnings presentations, the non-consolidated data is presented first, followed by the consolidated data. This reflects a very strong and ingrained emphasis on non-consolidated results, which I think will begin to change as Kajima's consolidated subsidiaries produce more results. This will result in a shift toward portfolio management. Kajima is currently focused on its construction operations, which are vulnerable to market swings, and as a result, the management targets have to be set from scratch every April. In other words, the company needs to expand its core business with operations that can generate stable revenues and, accordingly, reconsider its business development strategy.

Nakamura: Trading companies and general contractors typically see things very differently, because of the volume of international business that trading companies are involved in.

Furukawa: Doing business outside Japan means doing things differently. At some point, there will be a clash between Kajima Corporation's approach to business in Japan and the approach taken by its group companies outside Japan. When that day comes, it will be important for the company to remain steady in its goal of becoming a leading international company. International companies do business borderlessly. In other words, they develop their business globally. That does not have to change Kajima's approach to business in Japan. The last year has given me a sense of the excellent corporate culture that Kajima has long fostered. I hope that Kajima will build on its corporate culture to expand globally. I am confident that Kajima can achieve this.

Nakamura: Thank you for your continued input and for sharing your knowledge.

