



# Ensuring Sustainable Growth for the Kajima Group Beyond Fiscal 2020

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### Looking Back on the Medium-Term Business Plan (2015-2017)

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When I became President and Representative Director in 2015, we were faced with the urgent issue of revitalizing and reinforcing Kajima Corporation's domestic construction operations. We positioned the first two years of the Kajima Group Medium-Term Business Plan (2015-2017) as a restructuring period and moved forward steadily to rebuild our business, including intensive measures to address the challenging conditions in Japan's construction industry and deal with unprofitable construction projects.

We took steps in every stage of the construction process, from asking our people to leverage their skills as professionals to provide specific, user-friendly proposals to meet customer needs at the pre-order stage, to streamlining construction and improving productivity right up to the point of project completion. We also worked to ensure that the Group as a whole recognizes the importance of faithfully implementing the production processes that are at the

core of construction, or to put it another way, ensuring that we deliver quality construction safely and on time to the satisfaction of our customers.

During this period we were fortunate to benefit from various positive factors, including relatively stable construction costs and the favorable market environment ahead of the Tokyo 2020 Olympic and Paralympic Games. These factors have helped to improve profitability in the domestic construction business, which was one of the challenges that we faced. At the same time, we moved steadily to leverage our competitive advantages to systematically reinforce and expand our business portfolio and develop our business platform, and I think the hard work of all Kajima Group employees deserves credit for the tangible results we have seen, such as the robust performance achieved by group companies overseas, capitalizing on favorable economic conditions in the United States and other countries.

In all three years of that Medium-Term Business Plan, the Kajima Group achieved its initial targets, and in fiscal 2017, the final year of the plan, the Group turned in all-time high consolidated ordinary income, at ¥179.7 billion, surpassing even the record set the previous fiscal year.

## Acclimatizing to a World of Abrupt and Discontinuous Change

### Background to the Formulation of the New Medium-Term Business Plan

When formulating the Medium-Term Business Plan (2018-2020), we not only considered this three-year period; we also took a hard look at the medium to long-term changes that could potentially occur in the business environment beyond 2020.

It is likely that there will be no major changes in the domestic and overseas construction and real estate development markets up to around 2020 and that business will remain on its current course. However, construction volume is on an upward trajectory, supported by vigorous demand, and a concentration of large-scale projects in major urban areas, coupled with a lack of skilled construction workers, is likely to lead to increased procurement costs. It will therefore be necessary to devise further innovative ways of securing profitability.

We recognize that for 2021 and beyond it will be essential to respond to an “abruptly and discontinuously changing business environment.” In any given era, companies must continue to engage in business activities while responding to changes in their surrounding environment. There is the possibility that domestic and overseas markets will experience major changes depending on various factors, including, but not limited to, population movements, social infrastructure, environmental regulations, energy policies, and trends in the global economy. What is more, the whirlwind of technological innovation in recent years involving IoT and AI is driving change at an extremely rapid pace. This trend has the potential to transform the business models of the construction industry, and we are preparing for such changes now.

The most important points in the new Medium-Term Business Plan are to continue to respond to short-term challenges while still engaging proactively in measures designed in anticipation of mid- to long-term business issues.

### Providing Adaptive Solutions in Changing Times

When addressing mid- to long-term business challenges, it is imperative to bear in mind the linkage between all business activities and society. Companies that simply ignore various issues, whether they be environment, energy, or compliance-related, will not be able to maintain economic



growth or help build a healthy society. At Kajima, we take our responsibility to help solve such social issues seriously, and we are working hard to help build a sustainable world. In so doing, we also raise corporate value, which in turn enables us to grow sustainably as a corporate group. It is for these reasons that we have positioned ESG at the heart of the plan, and over the next three years we will prioritize initiatives to pursue environmental and energy opportunities, improve productivity and the work environment, strengthen the risk management system, and secure and train human resources.

So, what do we need to do to deliver growth in a rapidly changing society? Simply put, we must “sow the seeds for the next generation.” Anticipating changes in the future, we will work to reinforce our business platform, and invest actively in promising markets and growth areas. Specifically, we plan to invest a total of ¥500 billion over three years, with a priority on domestic and overseas real estate development, as well as R&D, M&A and human resources development. In particular, given that the real estate development business is the second most important driver of our business after the construction business, we will work to expand business in domestic and overseas markets and improve profitability. In addition to reinforcing collaboration among upstream and downstream group companies in the construction business, we will reinforce functions that are not strong enough yet through M&A and other means, and diversify revenue sources across the entire life cycle of buildings and structures. R&D will support innovation in group businesses, and we will steadily promote technological improvements to cement our competitive advantage in the future, including efforts to streamline the workforce and introduce automation in the construction business.

In all this, we will seek to build mechanisms that continue to deliver returns to our customers, shareholders and investors, as well as to our business partners and the broader society, today and tomorrow.

### **Building Next-Generation Construction Systems to Create Sustainability-Promoting Construction Sites**

The Japanese construction industry is currently facing the serious issue of a lack of next-generation workers. If the domestic construction industry becomes unsustainable due to a lack of skilled construction workers, it may become unable to support social infrastructure. It is essential to encourage young people to make construction their vocation of choice and work for many years to come. We will continue to engage in and reinforce such efforts.

Construction sites tend to have fewer days off than other industries. In response, the Kajima Group's work-style reform initiatives aim to ensure that construction sites are closed for two days each week (in principle eight days every four weeks). This type of reform is designed to establish a work environment that is attractive for both Kajima employees and workers from partner companies. In addition to ensuring that workers have days off, we will be striving to improve wage levels for skilled construction workers.

We will also engage in further efforts to develop multi-skilled workers so as to increase opportunities for skilled workers to increase their incomes. Meanwhile, we will support recruitment, education and training activities at partner companies, thereby ensuring the sustainable development of the construction industry. We have already launched specific activities, such as supporting production of recruitment materials and providing internships.

At the same time, we recognize that our many years of business success are all thanks to our attentiveness to customer needs, so we will ensure that our work-style reforms will not negatively affect our customers' businesses.

This is why it is imperative to ensure that, when implementing work-style reform, we improve productivity as well. This will enable us to guarantee time off for workers, without impacting quality and construction times. We will therefore press forward strategically with initiatives to streamline the workforce and develop automated technologies, as well as promoting utilization of building information modeling (BIM) and construction information modeling (CIM). As there are limits to the innovation we can create using the business resources of the Kajima Group alone, we will press ahead with comprehensive R&D that incorporates external

technologies, knowledge and ideas, further enhancing our capacity to respond nimbly to the requests of society and our customers.

Simultaneously advancing work-style reform and productivity improvements will lead to the creation of sustainable next-generation construction systems. One of the most important challenges we face is to bring the total strength of the entire Kajima Group to bear on this aim.

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## **Continuing to Earn Trust**

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### **Compliance Measures**

In March 2018, Kajima Corporation and an employee of the Company were prosecuted by the Tokyo District Public Prosecutors Office for a suspected violation of the Anti-monopoly Act. I would like to deeply apologize to all of our stakeholders that the Company is suspected of a compliance violation like this, in spite of the Group implementing various measures for compliance over the years.

In April 2018, we revised our organization and structures to strengthen compliance, and we will further enhance our compliance management system, going forward.

*For further details about compliance, see p 60-61.*

### **In Conclusion**

In an evolving business environment, our aim as a sustainable corporate group that remains essential to society is to ensure that the Kajima Group adapts to changes and continues to be responsive to the expectations of our customers in every era. I ask for your continued understanding and support so that, in the years beyond 2021, we are able to harness the rapid changes we anticipate in the business environment to create business opportunities.

