

Enhancing the Board monitoring function to fulfill Group Vision 2030

Yoshinori Kanehana  Jenifer Rogers  Ryoichi Saito
 Chairman of the Board Outside Director Outside Director (Audit & Supervisory Committee Member)



Board of Directors Effectiveness

How would you assess the current Board of Directors?

Rogers: I think the board meetings are functioning much better now than when I was first appointed as an outside director for the Company five years ago. Particularly note-worthy is the changes in the meeting agenda. In fiscal year 2021, we started selecting a priority topic for an extended and in-depth discussion at each meeting, and all of the members have been actively engaging in the discussions. I believe this has given clarity to the board meeting objectives and has enabled more meaningful discussions.

Saito: When we transitioned to a company with an Audit and Supervisory Committee in 2020 to separate the business execution and supervision functions, there was some trepidation about whether it would actually work. Now, however, the separation seems like a matter of course. Authority is being delegated to the executive side, and the supervisory side is better able to focus more on the longer-term perspective for important topics.

Kanehana: The Group Vision 2030 was adopted in 2020 as a guideline for our growth strategies, but right now the business environment is changing at an extremely fast pace. The reason the board decided to have a special discussion was to make sure that in this changing environment we are continuing to make tangible progress toward fulfilling the Vision, and because we knew that it would be crucial to continually monitor our progress from various perspectives, such as in the organizational structure, human resources, and investment.

Saito: The special discussion topics initially focused on the business portfolio and structural reforms, but we've recently been covering various topics like human resource strategy, sustainability management, and corporate transformation (CX).

Rogers: Deciding to hold ongoing discussions on key topics like carbon neutrality has also allowed us to delve deeper into this important topic. Another positive element is that the internal directors are also contributing more by sharing their experience and ideas.

Kanehana: The discussions have become even more dynamic with the addition in fiscal 2023 of Melanie Brock, a foreign national, which brought the number of outside directors on the board to seven, making a majority of the 13 members. I think the Board of Directors has a very good balance of demographic diversity of innate attributes like gender and race and



cognitive diversity of ways of thinking and experiences. Outside directors also help by clearly pointing out things that we may consider as common sense internally, but that may not be from an external perspective. In that way, they provide an extremely effective monitoring function, for which I am truly grateful.

Which Board of Directors discussion has left the greatest impression on you?

Saito: We covered a lot of topics in fiscal 2022, but the one that left the strongest impression was when we discussed the inappropriate conduct in 2021 at the Group company Kawasaki Thermal Engineering. I think the board did a commendable job of engaging in various discussions to explore how to improve the situation and being open about all the details about the incident.

Rogers: We spent a considerable amount of time discussing what to do to create a culture that really prioritizes compliance. I was impressed by the high level of engagement on the executive side to find a solution to the problem. Based on my experience as a corporate lawyer, the commitment of management is an important point for future compliance reforms.

Kanehana: After the incident, we conducted a survey of all the employees at the Group companies in Japan. One respondent wrote, "there is still an atmosphere in which fraud occurs." We believe we need to be fully aware of the situation, so following our policy the survey results, including that comment, were published and distributed to all of the companies and we took steps to improve the situation.

Rogers: The act of disclosing the survey results to all of the group companies also sends the clear message that "top management is not ignoring the problem." The Company is reforming its operation and providing compliance training to prevent recurrence, but to

Roundtable Discussion with the Chairman and Outside Directors

increase compliance awareness at all of the companies it's crucial that top management acts with integrity and conveys, continuously and on many levels, that it is serious about "doing the right thing."

Saito: I think creating a sense of openness within the organization is also important. If you feel that something is wrong but the organizational atmosphere discourages you from telling anyone, then no matter how many whistleblowing or other systems you have in place, you're never going to find the misconduct. We just have to continue working on improving until all employees feel that they can now speak up about something that they couldn't have before.

Kanehana: Unfortunately, the survey result shows that we haven't yet created an atmosphere where all employees in the Group feel like they can speak up. Not all employees even know that we have a whistleblowing system, so we need to find ways to improve starting at the very basics.

Rogers: Strengthening Group governance is also an important issue for the future. I think core Group companies should have their own internal systems that have a certain degree of independent controls, such as by having their own auditors.

Saito: From an auditing viewpoint, Kawasaki Heavy Industries has mechanisms and systems, but I feel that's a weak point for the other Group companies. They will need to put systems in place, but it will also be important for them to figure out how to train personnel to conduct audits. There is a lot of work that needs to be done.

Future Issues and Outlook

What topics are you focused on for the medium- to long-term horizon?

Kanehana: With the accelerating speed of change in



society, I would like the Board of Directors to make sustainability an area where we delve deeper.

Rogers: Sustainability is a very broad concept that goes beyond environmental activities like carbon neutrality and also encompasses business portfolio reform and issues in Group governance and compliance. My main focus for the medium- to long-term is the development of our global human resources. On a recent visit to Group sites in the United States, I talked with many outstanding employees there. Considering Japan's declining birthrate and aging population, it will be essential to more effectively utilize our international based employees like that throughout the Group. In other words, a global perspective is going to become increasingly important for our personnel strategy.

Saito: The three focal fields outlined in the Group Vision 2030 are all deeply related to social sustainability. We've clarified our strategic direction, and we are making steady progress with our internal promotion system and external collaborations and partnerships. But we need to feel a sense of speed. For example, we are at the forefront of the hydrogen field in Japan, but if you look outside the country there are companies in every region that are becoming increasingly competitive. I think we will need to bring about CX to accelerate development in all of our businesses.

Kanehana: CX will certainly be the key to sustainable growth. The heavy industry businesses that have been our area of specialization are seeing a growing number of competitive companies in China, other Asian countries, and all around the world. The Kawasaki Group needs to simultaneously implement CX in two directions—transforming our existing business domain and exploring new businesses like the hydrogen business. We will need to implement measures in all sorts of areas, including organizational development, human resource training, business process reform and DX while both remaining balanced and advancing at a furious pace.

Rogers: Our Group Vision 2030 is firmly in alignment with the social issues facing the world today, but on the business level, we need to contribute to society as well as to look closely at investment efficiency, profitability, and cash flow. The hydrogen business, for example, requires a huge upfront investment, so it's essential to consider the balance of capital investment and return, while also being aware of what our competitors are doing and ensuring we realize the social contribution.

Future Looking forward

What are your expectations for the Kawasaki Group in the future?

Kanehana: Kawasaki Heavy Industries pursues new technologies that will be useful to society and is highly capable of giving them form. However, I feel that our sales capabilities have some issues. If we want Group Vision 2030 to lead our business growth, we will need to strengthen our sales capabilities and sense of speed.

Saito: We might have a culture that thinks "if you make a good product, it will sell" or "if it's not perfect, we can't release it to the world." It is possible to release a product that is not perfect and then improve it based on how the market reacts. From that perspective, our marketing ability, our ability to discern what the market really wants, may be an issue.

Rogers: Only one of our Group companies, Kawasaki Motors, is in the BtoC business doing consumer oriented marketing and branding. I think we need to better utilize the sensibility and know-how of the BtoC business and gradually change the mindset throughout the whole Group to increase our brand appeal and speed to market.

Kanehana: It's true that heavy industry businesses tend to be perfectionists. President Hashimoto, however, is from the robot business where there is a strong tendency to "just put it out there, and then



make it better." I am hoping that he will take the lead in changing the Company's mindset.

Saito: A corporate culture doesn't change overnight. But I'd like the Company to change its corporate makeup, including by collaborating externally and hiring diverse personnel, to become a company capable of economic and sustainable growth. Since becoming an outside director, I've come to recognize that Kawasaki Heavy Industries has always been sincerely seeking to provide what is useful to society. I hope the Company will never waver from that fundamental principle.

Rogers: Thirty to forty percent of the railcars in the New York subway system were made by Kawasaki Railcar Manufacturing. I would like to see Kawasaki Heavy Industries use its technologies more widely around the world. I am optimistic and expect that the Kawasaki Group will further expand globally, by leveraging its overseas business successes and harnessing its worldwide human resource talent.



Yoshinori Kanehana
Chairman of the Board

Message from the Chairman of the Board

The role of the Board of Directors is to act as a monitor. To ensure we fulfill that duty, I use my position as the chair to elicit dissenting opinions to our discussions because that allows us to implement multifaceted checks. The outside directors bring a wide range of specialized knowledge in various fields, and I make a particularly conscious effort to draw out that knowledge.

Our Company is seeking to help provide solutions to many of the issues that are facing our society while simultaneously securing profits for sustainable growth. That's a complicated task that we are approaching with our Group Visions 2030 of what we want our Company to be in the future. We are advancing initiatives in many areas, including developing the hydrogen and other new businesses, selecting and concentrating our existing businesses, reforming our personnel systems, and bringing about our digital transformation.

The Board of Directors will closely monitor the progress of those executive initiatives, strengthen Group governance, and create a system and organizational environment that will be even more open to valuable advice from various external sources of expertise.