

## Dialog between the President and Investor



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## Bringing together wisdom of people and moving into new growth stage

### 1. Integration of three chemical companies (establishment of MCC)

**Horii:** Restructuring of unprofitable business, which was one of the main issues of the previous medium-term management plan, was finally concluded, by withdrawal from the terephthalic acid business. As an investor, I highly regard the restructurings that you have executed after Mitsubishi Chemical Holdings Corporation (MCHC) was established, which not only includes exiting from unprofitable businesses but incorporates acquisition of stable businesses such as pharmaceuticals and industrial gases. By merging three chemical-related companies to create MCC in April 2017, you have now finally established a structure to aim at high growth and high profits. In my view, business integration could generally bring negative effects due to differences in corporate culture/climate but could also generate positive effects as blending of different cultures could create diversity. As a member of the management team, how do you plan to control positive and negative effects, which may occur at the workplaces?

**Ochi:** As a basic premise, society is changing rapidly. Science and technology are advancing at amazing speeds, to meet

the requirements of solving problems such as represented by climate change, energy issues, and rising demand for medical care and fiscal issues caused by an aging population. It means that we may miss the opportunity to keep up with trends if we just continue to follow conventional growth trends. We therefore need new ways of looking at things and a different kind of motivation. This is precisely what we have aimed at through the integration of the three companies. In an independently structured entity, they tend to only look at their own products and areas of expertise. However, if people with different technological capabilities and expertise get together, they will necessarily look at products from various aspects and take perspective toward the next generation. The three-company integration has therefore aimed at transforming a homogeneous organization into an organization which consists of diverse human resources, or in other words to create an entity of multiple talents.

**Horii:** I remember the phrase “bring together the wisdom of people.” So you attempted to generate positive effects to encourage a challenging spirit and motivation among employees by breaking down the corporate boundaries.

By the way, you have consolidated 56 SBUs into 26 and

## Integration of three chemical-related companies, to form organization of people with different technological capabilities and expertise

Market Business Units (MBUs) into 10 in MCC. Will you explain your core ideas on how you delegate authority to these business divisions, as well as the management structure within the business divisions including the decision making process, and integration of common functions?

**Ochi:** Since the target market and business category are unified in the newly organized business divisions and these business divisions involve with the businesses of the MCHC Group companies, it is now possible to assemble information which used to be scattered throughout the three operating companies and MCHC Group companies. This facilitates deeper and broader discussions on technologies, business direction and investment judgment and therefore prompt decisions. In addition, as business divisions are business-focused organizations, it is relatively easy to delegate authority. This also engenders a sense of speed in the course of management. In the meantime, common functional departments, such as general affairs and accounting, have been consolidated for rationalization from separate departments in each of the three companies. For example, in the area of human resource management, we can now deliberate on the development of 42,000 employees within a framework of a single organization. In this regard, the Executive Management Meetings can discuss issues from even higher, broader perspectives than in the previous separate three companies, and do so from a more of a medium- and long-term viewpoint.

### 2. Group management strategies, governance structure, etc.

**Horii:** What kind of changes are you expecting to occur at MCHC?



I understand that MCHC aims at transition to the “resolute, speedy management” through replacing the Management Committee by the Corporate Executive Officers Committee.

**Ochi:** Previously, it appeared that the holding company supervised operating companies, but now, going forward, we clarify that it is a MCHC’s responsibility to formulate medium- and long-term strategies and based on these strategies, operating companies plan their short- and medium-term strategies. We will make sure that the strategies made by both sides interact properly. As the whole Group has established a stable base with each of our businesses having expanded corporate scale, we are now entering a growth phase. We should have a structure in which MCHC clarifies the future directions so that operating companies can take drastic actions with a sense of speed.

**Horii:** I see. I would like you to explain financial synergies. Your target is ¥50 billion as synergy effects from the integration of chemical-related companies. In general, integration has the image of slimming down or cost cuts. However, what you said seems to suggest that you aim to generate synergies from topline growth and prompt development of business projects.

**Ochi:** That is basically correct. Newly-established business divisions have the big mission of developing a new technology market through “orchestration,” in addition to pursuing organic growth of existing businesses. Given our expectation for this, out of potential synergies of ¥50 billion, ¥35 billion is estimated to be generated from growth and ¥15 billion, from rationalization.

**Horii:** You have identified benchmarks for portfolio management. I believe that any business goes through some stages: incubation, success, growth, maturity and decline. These stages can be applied to the markets or technologies. How are you reflecting such business stages in the portfolio management by each business unit?

**Ochi:** We have reorganized the entire MCHC Group from approximately 60 SBUs into 30, and then to 13 business units. In the past, we have fallen into a vicious cycle wherein

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### Shift to market-oriented from seeds-oriented development to stimulate discussion for future

businesses in smaller units were forced to slim down in order to achieve their respective performance target which is to be evaluated in each business, and ended up by not growing. By reorganizing these units as business units, each business units can think about how they can grow from a perspective of new technologies and new markets. Eyeing the potential over the next five or ten years, business units can develop mapping for each business stage.

#### 3. Growth strategy and investment

**Horii:** A company can raise ROE in the short term if it sacrifices future expenditures. However, this is not what medium- and long-term investors want. The same is true for shareholder returns. I want the company to invest for the future as well.

**Ochi:** Yes, we have been transitioning to the concept of ROIC from the conventional methods with the aim to improve capital efficiency. The UPI!20 activities for higher productivity, which will be introduced to MCC (see page 25 for details), specifies the ROIC reverse tree formula, sets the targets, and pursues its optimal figure for each SBU. We consider that this will allow us to lay out a scheme for more proactive uses of money for future development.

**Horii:** I believe that investment is indispensable for raising corporate value and that the main investment target should be facilities and equipment for the medium term, R&D for the long term, and human resources development for the ultra-long term. Let me now move on to R&D investment. What do you think are the best measures to produce efficient R&D outcome?

**Ochi:** R&D themes should be thoroughly decided by the management and are currently being discussed between the management and the heads of business divisions. From this year, however, we are changing the approach to managing R&D activities through what we call the Stage Gate Meeting and management by use of the MOT Indices (one of the three management axes of *KAITEKI* Management which aims to create innovation). While the Stage Gate Meeting checks R&D steps of each theme and manages the progresses, what is important is not management but achievement. The Group-wide achievement is monitored by using MOT Indices, such as the number of new themes or projects in progress, rate of development into market application, speed and expenses.

**Horii:** I have been observing your business for many years and I am impressed with your outstanding technological strength but at the same time, I feel you are facing a challenge on how

to apply your technology to actual businesses. Is it fine if I assume that, by becoming an organization to “bring together the wisdom of people” in the form of MCC, it has become easier to apply technology to businesses?

**Ochi:** First of all, I admit that it was a problem to find business from the seeds. We are now shifting into a market-oriented or solution-oriented approach. For example, the business division that has consolidated teams engaged in automotive related business now accumulate more information on the automobile market and they have begun discussing the outlook for car business in 2025. A medium-term management plan usually covers the upcoming five years at most, but that is not enough anymore. We can come up with new themes for R&D by the long term forecast on five focus markets .

**Horii:** Next, let us talk in a longer term perspective. I would like to ask about the investment of human resources development. What are your thoughts on nurturing employees for future management roles?

**Ochi:** Specialists in management tend to be highlighted, but for a manufacturer, specialists in R&D, manufacturing technology, facility management and other areas are just as important. During the high growth period when many people entered the company, experienced various positions and grew, becoming a generalist used to be one of the popular career paths. At



present, we need a system to deliberately foster specialists and to motivate them, including personnel we bring in from outside to pursue their career. This may mean changing the existing personnel system. In addition to expertise, we should take into consideration of nationalities and gender.

**Horii:** Overseas development is another subject of interest. Recently, there have been cases of problems that arose from the acquisition of an overseas company by a Japanese company. As an investor, I am concerned over the management of overseas subsidiaries. Will you share your thoughts, including lessons learned from the past?

**Ochi:** As a bitter experience of about 20 years ago, we had a situation where we could not see what was going on at some overseas businesses. This was because we delegated responsibility to a regional headquarter (RHQ) in a halfway manner. Since then, we made the business department directly responsible for its overseas business without relying on the RHQ. However, there is still a drawback of not being able to pay attention to the details. We are therefore considering a new structure in which a major RHQ member monitors an overseas group company as an outside director. Going forward, RHQs will be responsible for marketing, personnel management, environment and safety, and other common functions, while business divisions will focus on businesses. Under such a system, information sharing is inevitable. This is why a RHQ is also now required to participate in the Executive Management Meeting in addition to the head of business divisions and the head of the shared function division. I am expecting that this structure will allow more useful information to reach the management with faster speed.



#### 4. IoT, AI and health management

**Horii:** The current medium-term management plan mentions the use of the IoT and AI. What specific measures do you have in mind?

**Ochi:** We have just established the Emerging Technology and Business Development Office and appointed Chief Innovation Officer (CIO), Chief Digital Officer (CDO), and Chief Marketing Officer (CMO). Given the rapid progress of the Internet and data technology, there is a need to switch from the conventional logic-driven mindset to a data-based mindset and ideas in the discussions on products and businesses.

Let me give you an example of plant automation. About 25 years ago, there was a dynamic change in plant control method from simple control to multivariable and complex control. Since then, this has logically become so complex that it could not advance any further. In the meanwhile, the Internet and data technology have achieved rapid growth. Pursuing the conventional logic will not make further progress. Instead, we are now required to shift to an inductive approach of improving technology by analyzing data results. The IoT and the AI will promote further rationalization and energy conservation. I am also convinced that chemical synthesis reactions and effectiveness of catalysts will move up to a higher level in five to ten years from now.

**Horii:** Concerning health management, you aim to achieve results in about three years. What kind of benchmark or indicator are you thinking to use to ensure a good outcome?

**Ochi:** In deciding on an indicator of health management, we need to make a comprehensive assessment of not only health data, but also work performance, work satisfaction and other factors. Low productivity of Japanese companies is viewed as a problem but what I find more important is to produce creative work, rather than to merely raise the speed of work. When each of us becomes more creative, the organization should get stronger.

**Horii:** I can see that you truly aim for such corporate culture with the *KAITEKI* management. I think the concept of *KAITEKI* management is quite close to that of Environmental, Social and Governance (ESG). In order to prolong contribution to sustainable society, the company should find a favorable approach for its own sake. Win-win relationships that are good for both society and your company are what you should aim at. I believe that *KAITEKI* management enables you to achieve that.

**Ochi:** Our *KAITEKI* management seeks “a comfortable condition for people, society and the Earth.” I believe this is an important concept for achieving sustainable growth.