



Outside director  
Chair, Nomination and Compensation Committee  
**Yoshiyuki Sakaki**

Chairman & CEO  
Chair, Board of Directors  
**Norio Ishikawa**

Outside director  
Deputy chair, Nomination and Compensation Committee  
**Akito Takahashi**

Roundtable Discussion with OSG Outside Directors and Chairman

# OSG Governance Reforms and Functions Exercised by the Board of Directors

## Governance reform initiatives and achievements

**Ishikawa:** Since 2016, it has been our aim to construct a structure for governance befitting a listed company while also maintaining the unifying force demonstrated by our founder. In 2016, ten of the fourteen seats on the Board of Directors were held by inside directors. Today, there is a total of seven directors, of which four are independent outside directors, constituting a majority. This has greatly enhanced the independence of the Board of Directors.

**Sakaki:** The governance reforms that I have participated in so far have been from a position outside the company. Now, outsiders comprise a majority of the Board of Directors. Five of the seven members are non-executive directors. The Nomination and Compensation Committee is comprised of five non-executive directors, and both the chair and deputy chair positions are held by outside directors. Neither the Chairman nor President are members

of the Nomination and Compensation Committee.

**Takahashi:** Another particular feature of OSG's governance is its highly-effective global governance, which encompasses its overseas subsidiaries. When we have questions or don't understand something, outside directors take a proactive stance in asking employees at OSG Group's overseas sites. It is probably tedious to have to respond to each and every one of the crazy questions posed by outside directors, but I believe such dialogues also serve as chances for us to discover risks and opportunities that may have been overlooked. I have a strong sense that the OSG Group intends to exercise management in a way that harnesses outside viewpoints, so we outside directors are able to confidently exercise our oversight.

**Ishikawa:** We are constantly refining the OSG management system which applies to group companies. Financial data of group companies is checked monthly, so investment decisions can be made quickly. In addition to maintaining a management accounting

system, there is also a sense of solidarity within the group regarding compliance and internal controls. It is also important that President Osawa and I go out to our local subsidiaries and talk with our managers about OSG's management policies and business plans from the same viewpoint maintained by these managers. I believe it is essential that we have clear rules and straightforward communication with people of different races and cultural backgrounds.

## Diversity of OSG's leadership and Board of Directors

**Ishikawa:** OSG has two representative directors. As Chairman and CEO, I chair the Board of Directors. Nobuaki Osawa, who is President and COO, chairs the Executive Committee. It is my role to oversee the execution of business operations and determine the general direction in which OSG is oriented. President & COO Osawa has all authority for executing business operations. There may also be companies where approval by the chairman is necessary when a large amount of money is at stake, but the authority and decisions regarding business execution at OSG are centralized in the President & COO. OSG is structured in a way that clearly delineates operational execution and oversight, so this makes it less likely mistakes will occur.

**Takahashi:** The positions of CEO and COO vary from company to company. However, if their respective authorities are not clearly defined, then internal communication might get complicated. At OSG, these two positions function like wheels on a car supporting each other based upon a relationship of trust. That is one reason I believe OSG practices sound management.

**Sakaki:** When the previous chairman was CEO, Norio Ishikawa served as President & COO, so he has built upon that experience as he has worked to strengthen OSG's governance. A governance system with a Board of Directors on which outside directors hold a majority of seats is the best framework for OSG at this time. In terms of the diversity of the Board of Directors as well, we have worked on the challenge of ensuring diversity while also scaling down the number of directors. Although the current outside directors also provide gender diversity, I feel that, in the future, it will be more important to maintain the perspectives of technological development and global management strategy, which foster innovation in the manufacturing industry.

**Takahashi:** I also believe that OSG ensures a healthy diversity even as there are naturally certain limits on the number of directors. When I joined discussions among the outside directors, I have often been inspired myself. So, I think that we have been able to provide multifaceted knowledge to the business execution side. I think that, as Yoshiyuki Sakaki pointed out, skills in global management as well as technology and global development, both of which spur innovation, will be necessary components in the future. Options are also available for achieving these perspectives, such as having a technical advisor, who is more closely involved with actual development, provide expertise about product development. With regard to global management, OSG might need to further expand the pool of next-generation management resources, mainly individuals with extensive overseas experience.

**Ishikawa:** As our business expands further overseas, it will be vital for us to have expertise and insight of management from overseas. With only Japanese people coming up with new ideas, there is the likelihood that we will make mistakes characteristic of the Japanese. So, we have created a system for having talented people from outside the company at our local subsidiaries provide oversight of management at our group management companies in Europe, Asia, and the Americas. Although it is also important for the Board of

Directors of the OSG Headquarters be globally-minded, we also need to find ways to incorporate an outside perspective into the composition of the directors at our group management companies.

**Takahashi:** OSG has set up a Nomination and Compensation Committee, which is comprised mainly of outside directors who deliberate queries submitted to the committee by the Board of Directors. The compensation scheme sets out a clear formula for calculating performance-linked compensation. This has also been made available publicly, thereby eliminating any arbitrariness. We recognize that we will need to deliberate whether to add capital productivity as well as ESG-related metrics to the standard for assessing performance-linked compensation. I believe it is important for nominations as well that there be proper participation in the nomination process, including taking a proactive stance toward posing questions when something feels amiss about a selection presented by the executive leadership.

**Sakaki:** Prior to establishment of the Nomination and Compensation Committee, it was difficult for outside directors to participate in the process of determining compensation and nominations. I feel we are now able to provide accountability to stakeholders by having an outside perspective in the process rather than simply allowing the top people to exercise their choices as they see fit. I also hope we will be able to engage in more substantial discussions about plans for developing successors and expanding the pool of human resources for the next generation of management.

**Ishikawa:** We have also put inquiries to the committee about compensation amounts and performance assessments of executive directors in addition to the CEO and COO. There are three metrics that serve as the standard for assessing the performance of executive directors. They are the sales growth rate, amount of operating income, and the rate of operating income. We hope that committee members will discuss approaches to compensation and evaluation metrics in a way that keeps pace with changes in the times. What are your thoughts about the functions and roles of Audit & Supervisory Committee?

**Takahashi:** Because there will always be aspects of what is happening on the front lines that those of us non-executive members of the Audit & Supervisory Committee will not be in a position to directly ascertain, I believe it is important to communicate with full-time statutory committee members. Personally, my focus is on the number and types of reports received under the whistle-blower notification system. It has been pointed out that a culture of speaking up is not well rooted when it comes to quality assurance problems in the manufacturing industry as evidenced by those which have surfaced during the past few years. Don't you think it is important to have a culture in place enabling a prompt and appropriate response if a scandal arises?

**Sakaki:** By coordinating information with outside auditors, talking with full-time statutory Audit & Supervisory Committee members, and receiving regular reports from the internal audit department, we have been striving to get a handle on what sort of issues need to be promptly responded to when something happens internally. OSG also has more and more sites overseas, so there have been calls to further enhance internal auditing. Monthly management accounting data is able to be checked the following month and this has contributed to enhancing the efficiency of internal audits.

**Ishikawa:** So that the Board of Directors, which is comprised of a majority of outside directors, functions properly, a constant effort is required of each and every director. We will continue to reassess the way that governance should optimally be exercised so that we may meet the expectations of our shareholders as well as all of our other stakeholders.