

Corporate Governance | Roundtable Talk with Outside Directors of OSG



Akito Takahashi

Outside Director, Audit & Supervisory Committee Member

Kayoko Yamashita

Outside Director, Audit & Supervisory Committee Member

Effectiveness of the Board of Directors and OSG's Corporate Culture

Our Vision for 2030

The OSG Group has a long-term vision through FY2030 and is rolling out Beyond the Limit, our three-stage Medium-Term Management Plan for targeting this vision. Two of the Group's outside directors offered their comments on the current Board of Directors and OSG's aims for sustainable growth as an essential player contributing to the manufacturing industry.

OSG Group's Corporate Culture and Strengths

Our unique strengths alongside our corporate culture have a substantial impact on OSG's growth. We asked two of our outside directors to share their views on the attributes of the Group's culture and strengths.

Takahashi: If I had to express this company's corporate culture in one word, it would be "liberal." The company has an openness to free and active debate, including on the Board of Directors. I think major factors in this are the extremely sincere manner in which Chairman Ishikawa and President Osawa listen and individually participate in frank discussions and discourse. I first joined the company as an outside director in 2018, when Chairman Ishikawa was company president, but I felt the liberal climate of the company from the beginning.

Yamashita: I agree. My impression is that it is an open and

transparent company and I also see this when I observe the employees. Part of our job is to visit factories and I have noticed that employees are extremely sincere, they offer suggestions, and supervisors respond by earnestly listening to the things they should listen to. My sense is that the open and transparent corporate culture is having a positive influence on employees and on business. Going forward, I expect further growth to be possible as OSG leverages this sincerity as one of its strengths and as employees take a creative and flexible approach to their work.

Takahashi: Yes, indeed. It certainly seems that the sincerity of employees is linked to the Group gaining a very high level of global market share. The cutting tools made by OSG are indispensable for manufacturing. In this industry, a business model geared toward rapid profit growth through rapid innovation may not actually be the optimum solution. Rather, I think the model should be one where a company plays a key role in supporting the front lines of manufacturing, which requires that each and every product be diligently crafted and supplied to users without interruptions. OSG has boosted its reliability by being an early pioneer in global

expansion, while quickly understanding the needs of local customers and continually supplying—without delay—high-quality products when they are needed. The Group did not gain a leading global market share in one leap, but built up this position through steady, accumulated effort. Additionally, what has supported this growing market share has been a global framework for supplying consistently high-quality products and services that include raw material procurement, product development and design, production, sales, and after-sales services. I think this framework can be described as one of OSG's strengths.

Yamashita: Speaking of strengths, we should also include how the Group has adopted a global perspective. In the 1960s, OSG set forth a corporate philosophy of having a "global presence." In the 1990s, after Japan's economic bubble collapsed, the Company touted the slogan "Economic Global Presence." The management approach of the former chairman, the late Teruhide Osawa, adopted the belief that "the OSG Group would not grow unless it found a means of surviving overseas, in the same way that people in years past had gone out into the world to find work elsewhere." Through many years of expanding its business globally, the Group has gained a deep-seated global perspective of marketing and manufacturing, while many of its employees have professional experience being posted overseas. I think that a major strength of the Group is this foundation of having employees that are not averse to doing business on a global stage.

Takahashi: What you say is correct. Perhaps because the Group was early in expanding globally, I feel like it has a high degree of flexibility and adaptability to change. One example can be seen if you go to a domestic OSG factory. You will see lively communication with engineers from abroad. I have heard that employees are able to converse with these visitors through product diagrams, even without fully understanding each other's language. My impression is that even when an issue arises, OSG employees do not shrink away, but demonstrate poise by considering what can be done and then giving it a try. This composure also seems to show in how employees respond when taking on new challenges and handling unforeseen trouble.

Yamashita: I fully agree. I feel that OSG has a spirit that is extremely willing to take on challenges. A culture of not being beholden to the past and boldly taking on new challenges is deeply rooted in this company. The importance of human resources has been recognized in recent years. However, since we will be entering an age in which it will be difficult to acquire ever more talented staff, I think it would be wise to approach employees while leveraging OSG's corporate culture and unique strengths.

Challenges to Tackle for Achieving the Long-Term Vision

OSG has outlined a three-stage Medium-Term Management Plan and will be entering Stage 2 after the fiscal year ending November 2025. What do you think are the current issues the Group must tackle?

Yamashita: In the three stages of its Medium-Term Management Plan, OSG is endeavoring to gradually change the composition of its customer-specific portfolio. In order to respond to changes in the external environmental, such as social and industrial composition, I

think it is important to nimbly sense these changes and continue executing our business projects out to 2030. Additionally, as we achieve our Medium-Term Management Plan goals, it will be essential for all actively engaged employees to understand the Medium-Term Management Plan and approach their tasks with a sense of ownership. So, I think one issue will be the extent to which the Medium-Term Management Plan is disseminated to all employees. Considering OSG's corporate culture, I do not think it will be hard to disseminate the Medium-Term Management Plan to employees, though it will be important to boost their sense of urgency and awareness, while also strengthening OSG's framework for tackling the Medium-Term Management Plan.

Takahashi: With regard to the point about employees having a sense of ownership, I feel that it is meaningful that OSG has devised the restricted stock incentive plan for its Employee Shareholding Association. My understanding is that when employees hold shares in their own company, it increases their interest in company performance and ultimately imparts a positive change to awareness of the company and one's own work. At the same time, with regard to important issues, I think that it would be beneficial to incorporate more evidence-based judgments in the OSG Group's sustainability initiatives. At present, we have a Sustainability Committee that deliberates and decides on policies and initiatives, while making regular reports on activities to the Board of Directors. However, in this opaque and uncertain modern society, there is no guarantee that we can achieve our goals even if we do what we are supposed to do. At every opportunity, it is necessary to appropriately gather information and make judgments based on the results of analysis.

Investment in human capital is also essential for sustainable corporate growth. Please share your views on this and its related challenges.

Takahashi: Currently, I think that the mainstream approach is to strive for diversity in terms of a company in which everyone can work comfortably, as opposed to a company in which specifically women can work comfortably. I would like companies to strive to steadfastly provide an environment conducive to flexible work during each stage of life, while simultaneously becoming a company in which employees take part in creating a workplace that is comfortable for themselves. In OSG's case, the Group is able to



Corporate Governance | Roundtable Talk with Outside Directors of OSG



extend a hand in times of hardship and suggest possible options to try, while also showing generosity in terms of acceptance for difficult situations. I think that a company in which all employees can work comfortably is achievable without a great reformation, but instead by adding needed elements to the systems that have been built up to this point. Going forward, I feel that the management team will need to show leadership in striving to build a framework that allows for the full engagement of employee abilities.

Yamashita: OSG has a sufficiently robust work environment with its current systems, but as Director Takahashi has said, going forward I would like the Group to become able to provide a work environment that meets each individual's needs. Going one step further, that would be a company where those who want to work extra can work extra and those who want to prioritize work-life balance are able to do so without hesitation. Rather than one uniform approach through work style reform, I think that establishing a framework and environment that allows employees to select the work style they desire is an important element for companies of the future, and will be an inflection point in whether we are able to secure high-quality human resources.

A Board of Directors that Supports the Sustainable Growth of OSG

The role of a board of directors is to exercise leadership to face business challenges and pursue sustainable growth. What are the characteristics of OSG's Board of Directors?

Takahashi: OSG pursues enhanced corporate governance with a steadfast Board of Directors, the composition of which could be described as extremely conducive to taking on challenges. The seven directors include Chairman & CEO Ishikawa, President & COO Osawa, plus five directors who are members of the Audit & Supervisory Committee, four of whom are independent outside directors, and one of whom is a non-executive inside director. I feel that this structure is conducive to effective corporate governance and that the division of CEO and COO roles is clear, with President Osawa (who is COO) handling all authority related to business execution, and Chairman Ishikawa (who is CEO)

carrying out supervision of those activities. Outside directors not only voice input relevant to their personal areas of specialty, which cover diverse professional backgrounds, but also share anything they notice based on their experience and expertise. I feel that having wide-ranging input from the perspectives of members who have accumulated outside experience is the very definition of a corporate governance framework in which outside directors comprise a majority of directors overall.

Yamashita: That sounds right. From the time I became an outside director until now, I have never felt any difficulty in voicing my opinion to Chairman Ishikawa and President Osawa.

Takahashi: There has been no time at which Chairman Ishikawa and President Osawa insist on taking opinions and forcing conclusions. Although OSG is a company that draws part of its strength from the reliability and robust character of its founder, meetings proceed in a rational and sound manner, and, whenever we do not arrive at a conclusion, the reasons for that are clarified and on-going deliberation follows.

Yamashita: With regard to agenda items that require deep inquiry, we have been able to receive detailed material sufficiently ahead of time to allow for ample preparation. The approach has been one of quickly providing information as it becomes available, rather than waiting until all the information is available, which has been tremendously helpful and, to me, is evidence of the administrative office's effort and ingenuity.

What has been your impression of the role that independent outside directors are asked to fulfill on the Board of Directors?

Takahashi: My understanding of my role is to leverage my experience as an attorney and an outside director of other companies in order to contribute to the continuous improvement of risk management and corporate value. Although OSG has legal advisors, I think that I am able to offer useful expertise because of my involvement in management on the director level. Furthermore, I understand the position of an outside director with diverse skills to be one of engaging in responsible management while sharing knowledge and experience from one's area of specialty.

Yamashita: With my experience not only as a certified public accountant, but also in conducting audits as an external auditor, I understand my role to entail advising and auditing OSG's systems for internal control, and I strive to provide insight in this regard. In recent years, various demands are being made of companies from the perspective of corporate governance. It seems that, rather than a simple response, companies are being strongly called upon by stakeholders to consider their position and provide clear messages and policies on what actions are being taken. To be sure, we must strictly adhere to regulations and proactively make required disclosures, but it is another matter to consider whether rules and requirements are being incorporated into management practices. Endeavoring to integrate this into management is no small task, but I think that OSG, and other companies as well, must communicate their policies and continue striving.