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Outside Director

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We work to connect the unique strength of the MGC Group with new growth while enhancing its corporate governance system.

In recent years corporate governance has been an important focus for publicly listed companies, and initiatives to enhance these systems are drawing more attention than ever. In this roundtable talk we asked our three outside directors to discuss corporate governance at MGC. We asked about how they identify the Company's current leading issues, what they suggest to address them, and how they think they should be involved to help make the Board of Directors more effective. They spoke in depth on these questions.

Characteristics of the MGC Group and Its Unique Challenges

MC: In your eyes as outside directors, what special characteristics does the MGC Group seem to have? What do you think are its highest management priorities and unique challenges?

Manabe: Before joining MGC I was working for an electronics manufacturer that prioritized technology development. This is my first time on the management team of a chemical manufacturer, but I see a common thread between my previous employer and the MGC Group in that it is also an R&D-oriented firm focused on honing its proprietary technologies. Here people in charge of technology development work with a relatively high degree of freedom, and I see that MGC has a culture that encourages this. It is also unique in that it built a chemical manufacturer using natural gas as the primary ingredient. MGC is the only chemical maker pursuing an energy resources business, such as geothermal power generation, by applying technologies for natural gas extraction. I think this positioning is a strength through which MGC can contribute to urgent societal concern about carbon

neutrality. MGC is a good corporation with strong technical foundations upstream to downstream, and it's in good financial health. This should be much better known.

Suzuki: I did business with MGC when I was working for a trading house. From the viewpoint of a business partner, I was aware of MGC's open culture. While it is a member of a tightly knit corporate group, it does business with all sorts of companies, not confined to its group. My impression of MGC from that time remains the same. I think this nature allows the kind of openness that allows all employees to speak frankly with one another, without being hampered by internal boundaries.

I was appointed as an MGC outside director in June 2020, just before the beginning of the three years most impacted by the pandemic. So I regret missing the many face-to-face meetings and direct talks that I could otherwise have had with MGC employees. Ms. Hirose, you came aboard about the same time as I did. Do you feel the same way?

Hirose: Yes, it was those three pandemic years.

Suzuki: In the fall of 2022 I finally had the opportunity to visit our plants in person, then the research labs in 2023. On both occasions, I enjoyed talking frankly with the employees. I'd like to zoom in on MGC to see it as it is. From my perspective a unique issue for the Company to address is that while its corporate culture encourages taking on new challenges and supports efforts to overcome them, it still isn't easy enough to question and disagree on what's considered a challenge. To ensure that the organization maintains a robust self-assessment function, we have to encourage discussion involving multiple viewpoints, including those opposing one another. To that end we should never be a lion at home and a mouse outside, instead remaining constantly aware of third-party views outside the Company.

Hirose: I always think of MGC as a group of many excellent, hardworking people, and a rock-solid company that works seriously on the tasks in front of it. That said, we should all bear in mind our responsibility to encourage deep, forthright discussion, as extensively and frequently as possible, till all involved feel it's sufficient. Some issues are taken into board meetings after going through internal business-focused talks. Here at MGC, however, I feel those cases are less common than in most international organizations. I'd say this problem is not unique to MGC, but common to all Japanese firms. In international negotiations, thorough discussion, suspending our personal "common sense" because it is not necessarily shared with the other party, is the only way to get anywhere. I understand the chemical industry as an open world where we can discuss and collaborate with engineers from anywhere on Earth, using science and technology as a common language. That's why we have to work to sharpen our international competitiveness.

Raising the Effectiveness of the Board of Directors with Years of Management and International Experience

MC: In board meetings, when you offer advice and guidance as overseers of MGC management, what do you think is particularly important?

Manabe: I keep an eye on how the R&D budget is distributed. Under the current Medium-Term Management Plan we envision society in around 2050 and create action plans backcast from that future. To provide products that will be needed in the future we envision, we have to continuously allocate budget to basic research, along with the technology development that extends our existing business. That's how we cultivate seedlings for the next generation of growth. Circular carbon methanol is a case in point. Its commercial applications are in sight, and no other firm is touching it. It has strategic significance and huge market potential. I hope to see more products like this coming out of MGC.

Suzuki: I've been talking about the importance of exit strategies and personnel exchanges every chance I get. In a board discussion about an unprofitable project, I asked what the exit strategy for it would be. Trading houses usually maintain clear exit strategies they can review quickly and flexibly. For manufacturers, however, it takes more time to get to the exit due to the production facilities and people working there. Following business portfolio reform MGC is now making substantial progress in withdrawing from or reorganizing unprofitable businesses, and getting positive results. Going forward we have to direct these efforts to energizing our people and business even further.

To identify the markets where a proprietary technology can show its true worth and determine its best applications, it's important to combine the scientific and humanities viewpoints as a path to higher-quality conclusions. To connect social needs with MGC's technical seeds, I want to focus on exchanges between sales personnel and technical employees, people with backgrounds in the humanities and those in science, and will keep an eye on the progress.

When I saw the annual All-MGC Poster Presentation for the first time, I was very impressed with its profit-mindedness. This is an opportunity for technical employees to present their R&D projects, progress and results. They always provide explanations with profitability after commercialization in mind. This came as a surprise to me, in a good way.

Hirose: I want to help raise MGC's corporate value by giving objective management advice based on the knowledge and experience I've obtained abroad. There are huge differences between Japan and any given foreign country in expressing opinions and the time they take to make decisions. Japanese companies are in a crucial stage now in learning about these differences and applying that understanding to building and executing growth strategies.



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MC: How do the proceedings of the board meetings look to you?

Suzuki: I think it's important to have board meetings go beyond finding official consensus to creating opportunities for deeper discussion, ensuring that nothing is missed in our decision-making processes and verifying the rationality of the decisions.

Hirose: I think Japanese companies are in a transition phase in terms of corporate governance reform, and beginning to apply the knowledge and experience of us outsiders to raise the effectiveness of the Board of Directors is an example. I feel it's very hard to quickly respond to government recommendations for achieving quantitative goals, but I think we can come at these issues with a positive mindset.

Manabe: For sustainable growth it's important to be aware of capital cost, profitability, share prices and other quantitative metrics, but we must not neglect MGC's unique defining characteristics, which can't be expressed in numbers. From that perspective I'd like to help raise awareness, in board meetings and on other occasions.

accepted. The other was about a production subsidiary for basic chemicals that MGC established in Europe. After broadly discussing the systems for executing an overseas construction project, including the strength of overseas contractors and what we should consider carefully about them, the board decided to proceed with the project as planned.

Hirose: MGC operates all over the world, with more overseas sales than domestic sales. In practice, however, we sometimes struggle to manage those operations. It's not easy to make clear distinctions between areas we should entrust to local managers and those that should be under strong oversight by Japanese headquarters. As a result, we risk leaving management struggling with half measures. This is not a problem unique to MGC; many projects by Japanese companies abroad hit this wall. But we should not fear failure. What's important is to closely analyze the cause of failure and avoid repeating the same mistakes.

MC: Let's talk about the requirements and appointment of new executives and scenarios for candidate training, which are important agenda items for the Compensation and Nominating Committee.

Specific Examples of Reflecting Outside Directors' Advice and Recommendations in Making Decisions

MC: Tell us about the agenda items that led to particularly active discussion in board meetings in fiscal 2022.

Suzuki: There was a time when the opinions of board members split over two projects MGC was working on abroad. One of them was at a production site that had expanded a few years before. Due to low selling prices and other factors it hadn't turned an enough profit for several years. We outside directors pointed to some overarching management issues. After discussion our suggestions, including increasing human resources investment, were





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In particular, which points do you think will be more important in the future?

Hirose: I always think we should train executive candidates who are confident and comfortable doing business in markets worldwide. To do that we first have to give them time to get away from their turf in Japan and take self-training trips abroad. I don't think that people who are working comfortably, believing the Tokyo head office is watching over them to help if something bad happens, will ever truly meet our needs for executive candidates.

Suzuki: I totally agree. I want to add something, and that's to develop programs and systems to train locally hired people as future executives for our foreign subsidiaries. Speaking from my experience in a trading house, I think it's ideal to promote local employees to head local subsidiaries, even if it may take more time. It's essential for the future of MGC to increase diversity by actively appointing women and non-Japanese, as well as assisting in their career development.

Hirose: To help women employees in their career development, eliminating unconscious bias and wrong beliefs will be a major point.

While paying attention to the quantitative metrics, I hope MGC will continue to cherish its unique defining characteristics, which can't be expressed in numbers.

— Yasushi Manabe

Manabe: Speaking from my experience, to select executive candidates from among those in the core business, we should ideally transfer them to subsidiaries as presidents. That's because the core business of the company usually enjoys favorable market environments and good customers, which can make the people working within it too laid-back. Even more ideally, we should find people who have led businesses in tough environments and promote them as executives. They have gone through hard times in unfavorable environments, so they understand the difficulties of their employees while they've built an acute sense of the risks ahead.

Integrate Ideas to Resolve Problems and Push the Company to Grow

MC: In concluding our talk, tell us about your hopes and ambitions for MGC.

Suzuki: I think our employees are our most important stakeholders. I think a company with happy employees grows. I'd like MGC to take care of and train people working in Japan and abroad for the Group, and also make a habit of thoroughly explaining its growth strategy and the like to them.

Hirose: Let me reemphasize that there should be a system that assures tight governance of foreign subsidiaries by the Japanese head office. I'll be happy to share my experience with the promotion of diversity and inclusion and employee development. I hope to see early incorporation of state-of-the-art technologies into products that can help build a society focused on reducing waste and encouraging recycling as a new growth field.

Manabe: I agree with you. The key to future growth, I think, is in carbon neutrality and similar businesses. MGC has great success potential, and I'm looking forward to it a lot. I'd like MGC to be a major presence in society as it increases its capital efficiency while increasing the scale of sales.