

Corporate Governance and Appointment of Top Management at Daifuku



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In our recent interview, we discussed how Daifuku would continue to create value, what qualities are essential for a leader, and considerations at the Advisory Committee in regard to the appointment of top management.

Daifuku made a new start in April 2018 under the leadership of new president and CEO Hiroshi Geshiro.

What should outside directors on the Board of Directors know so as to make appropriate decisions in regard to strategy and the appointment of top management?

Kashiwagi: When determining whether a given strategy is appropriate or not, it is important for us to actively participate in the early strategic planning phase. For the medium-term business plan, I believe it is essential to be involved from the initial formulation stage. With respect to the appointment of top management, the most important thing for us, as members of the nomination and remuneration advisory council, is to know candidates fully. A proper decision cannot be made if we do not have sufficient information.

Ozawa: Regarding the appointment of top management, I think the real work of the outside director begins after the Company produces the initial draft. Our function is essentially to monitor the actions of management. In this capacity, it is vital to look at the candidate's daily actions to determine whether they are the right person for a leadership position, and to consider carefully whether this is indeed the best decision for the future of the Company.

We are not in a position to develop management strategy. While maintaining the current theme based on advancing corporate value over the medium-to-long term, we also look for data pointing to whether a decision is valid as a sustainable strategy. I further believe it is important to

Advisory Committee

Daifuku's Advisory Committee is a discretionary body comprising representative directors and outside directors. This committee is responsible for discussing nominations as well as remuneration. This committee is chaired by an outside director.

look at strategies to determine whether or not they are unreasonably risk-averse.

What are your thoughts on the qualities required of top management?

Kashiwagi: It is important for leaders to maintain a high ethical standard. As has been seen at other companies, a lack of ethics among those in leadership positions can sometimes result in a fatal breach of laws and regulations by their subordinates because the tone of the top sets the ethical standard of the entire company.

Ozawa: When asked about quality in management, Peter Drucker is said to have commented along the lines that it is not about being affable or sociable, but rather about integrity, meaning honesty, seriousness, and dedication. It has also been said that the most-successful organizations are those where the leaders are respected more than liked and where the leader demands the same level of excellence from himself or herself that he or she demands from subordinates. I consider integrity to be the most-important quality in management, and that leadership at Daifuku is outstanding in that respect.

What should the Advisory Committee be discussing when appointing top management?

Kashiwagi: We hear the reasons why the person is recommended for top management. We examine the reasons based on daily observation of the candidate. If we have questions, we address them to the persons recommending the candidate. We will usually respect the judgment of those recommending him or her because they have much more knowledge than us about the capability of the person. However, when a person displays a clear lack of qualification or when a person has been selected by unfair means, it is the responsibility of the outside director to express opposition.

Ozawa: I agree with Mr. Kashiwagi. The internal directors and officers prepare a draft for the appointment of the candidate or candidates, and it is up to us to determine the appropriateness of this person. To accomplish this, we conduct a comparative verification based on interviews with the various candidates.

Let's talk about your assessment of Daifuku's commitment to strengthening governance.

Kashiwagi: Daifuku's corporate governance is improving every year. I am the first outside director and was the only

one when appointed. Now Daifuku has three outside directors. I have been very impressed with the strong ethics shown by the executives here. When I was first selected to serve as an outside director, our late Chairman Takeuchi stressed that the Company's corporate culture was focused on "integrity, righteousness, and transparency." It seems that philosophy is still at work at the Company today. I am also impressed by the fact that the directors at Daifuku are not clinging to their positions.

Ozawa: The Company has no shortage of people who are sincere, serious, and dedicated. Whenever we point out areas for improvement, the Company and its people respond very quickly. As an example, if you need to see material for the Board of Directors' meeting at a point earlier than usual, the Company is quick to oblige. I also believe Daifuku is firmly committed to strengthening its governance.

With earnings trending favorably, what should Daifuku prioritize?

Kashiwagi: One of the Company's challenges is how best to generate synergies in a business that is expanding on a global level partly through M&A. I believe it is important to work to maintain Daifuku's open and integrated organization avoiding isolation of individual divisions.

Ozawa: Good things may not last forever, and there may be times where earnings fluctuate. During such times, it is important to manage costs, and in particular to avoid unnecessary expansion in fixed costs. However, companies cannot survive if they do not change with the times, so upfront investments are also critical. While there may be some risk, it is needed to maintain room for investment in new businesses.

In closing, could you provide a message to our stakeholders?

Kashiwagi: When focused on monitoring from the viewpoint of stakeholders, I believe it is essential to take less of an internal perspective, and instead maintain an objective outlook from the standpoint of an external shareholder.

Ozawa: That is exactly the way I look at it as well. Daifuku is working to improve transparency, and I would like to see investors looking at, and investing in the Company from a long-term perspective.