Deepening ESG Management (Value Co-Creation Story)

Governance and Value Co-Creation

– Roundtable with Outside Directors


Outside Director, Audit and Supervisory Committee Member **Masahiko Okamura**
Outside Director **Shiro Kuniya**
Outside Director, Audit and Supervisory Committee Member **Satoshi Tamai**
Outside Director **Kanako Sekine**
Outside Director, Audit and Supervisory Committee Member **Michi Sasano**

TOA CORPORATION's Board of Directors is composed of a majority of independent outside directors, with the Chairman, the Chair of the Audit and Supervisory Committee, and the Chair of the Nomination and Remuneration Committee all being independent outside directors. This structure ensures transparency and soundness in management while aiming to enhance corporate value over the medium to long term. The outside directors, bringing diverse perspectives, freely exchanged views on the Company's challenges and strengths from an external standpoint, factors for medium- and long-term growth, and ways to further strengthen oversight.

Impression of the Company as an outside director

Okamura: I have served as an outside director of TOA CORPORATION since 2014. My impression is that the Company truly embodies its Corporate Philosophy and Three Management Policies. It is a sincere and earnest organization, and these guiding principles perfectly reflect what the Company stands for. The Company works in social infrastructure, which directly impacts people's lives, and because infrastructure can sometimes mean the difference between life and death, employees feel a profound responsibility to deliver reliable and high-quality construction projects. It is precisely this dedication through their work that makes the Company sincere and trustworthy in its approach.

Tamai: I see TOA CORPORATION as a company with outstanding technical expertise and know-how, supported by over 110 years of history and tradition. Its business extends not only across Japan but also internationally, primarily in Asia, making it one of the nation's leading comprehensive construction companies. At the same time, perhaps due to the nature of the construction industry, the Company might not be very widely recognized by the general public.

Sekine: Although I have served as an outside director for only a year, I am impressed by the Company's diligent approach to its business. As the saying goes, "Culture eats strategy for breakfast," and TOA CORPORATION's culture — sincere, earnest, and diligent — reflects a strong and well-established organizational ethos.

Sasano: I agree. Over many years, the Company has supported social infrastructure with a focus on marine civil engineering, steadily building highly specialized technical expertise and construction know-how. In the construction industry, safety must always come first, and I feel this principle is deeply embedded in the Company's culture. While TOA CORPORATION has a long tradition in civil engineering, it is also supported by its building and overseas businesses. In recent years, the building business has grown remarkably, with the Company's refrigerated warehouse technology gaining broad recognition and keeping pace with market trends, which is truly impressive.

Kuniya: Indeed. The Company is increasingly being directly selected by clients for projects. The civil engineering business provides a long-established foundation, and the building construction business is steadily progressing. TOA CORPORATION is a solid, well-grounded company.

Okamura: That's right. I find it admirable that the Company has been taking on significant challenges both domestically and internationally. I see a connection to the entrepreneurial spirit of our founder, Soichiro Asano, in this drive. The Company's record of venturing into new fields is a truly remarkable achievement.

Kuniya: Expanding the Company's business in Singapore, a global financial hub, is impressive. I am particularly struck by how the Company has continued to advance its projects in Bangladesh steadily and responsibly, even after the political upheaval there last August. At the time, I was concerned, but the Chief of the International Business Headquarters quickly assured me that the sites were secure, which confirmed the Company's strong grasp of events on the ground.

Okamura: True. The risks we perceive as outside directors are quite different from those encountered on the ground while managing local projects. Before entering a new market, the Company conducts thorough investigations—both objectively and subjectively—into its ability to manage potential risks and respond effectively if incidents occur, and only then decides to expand. In emergencies, the Company evaluates what measures it can take, drawing on local partners and, if necessary, the support of the Japanese government. I view these expansions as carefully planned and meticulously prepared undertakings.

Tamai: In the world of accounting, company management is often likened to driving a car. Effective driving is only possible when the supporting organizational functions—like the tires and engine—are solid. The management team, including executives, is at the wheel, moving forward while keeping an eye on the passengers, the vehicle itself, and the surrounding environment. From this perspective, I think sudden brakes or sharp turns can be very harmful, even in management.

Sekine: That's an interesting point. I understand that driving forward is hardly possible without a well-structured organization.

At the same time, when "road conditions"—such as social trends or market environments—change, the "car" that is the organization must be continuously updated to remain aligned. It's somewhat like updating software. As the demands on management increase, it is also our role as outside directors to point out when such updates are necessary and provide guidance.

Kuniya: Tamai, as a newly appointed director, what aspects of the Company do you intend to focus on first?

Tamai: Above all, I want to focus on how the management team gathers information while keeping an eye on the surrounding environment. This, I believe, is reflected in the Company's culture, so I intend to pay close attention to whether a culture that encourages open and free discussion—where opinions are not suppressed—is truly ingrained.

On the transition to a Board of Directors with a majority of outside directors

Sasano: The year 2025 marks a major shift in the structure of the Board of Directors. The Board has engaged in active discussions in the past, but with the reduction in the number of internal directors this year, there are concerns about whether we will be able to access internal information as effectively as before. As both an outside director and a member of the Audit and Supervisory Committee, I think we need to take even more proactive measures, including regarding the committee's activities, to ensure sufficient internal information is gathered. It is our responsibility to keep sending the message of what we consider "need to know" while deepening dialogue with the executive team.

Okamura: Serving as an outside director has its challenges, but I think it is crucial to convey the message that the Board of Directors is actively monitoring the Company. By doing so, those within the organization are made aware that their actions are being observed, which I believe is the most important aspect of effective governance.

Kuniya: In audits, it is often said that sampling should focus on high-risk areas. Within the TOA CORPORATION Group, which areas do you recognize as requiring the closest attention?

Sasano: Each year, the Audit and Supervisory Committee meets with the Chiefs of each business division and conducts on-site inspections at various branches and projects of interest. Through these activities, we take a closer look at issues that warrant attention.

Kuniya: I feel that President Hayakawa, while he might seem cautious, he is very familiar with the field and has quite a bold side as well.

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Okamura: I agree. President Hayakawa is highly decisive—he identifies the key issues and makes clear, firm decisions. For instance, he recently reorganized the branches in western Japan into integrated civil engineering and construction branches. I imagine there must have been many opposing voices, but he prioritized the benefits of integration. At the same time, he is flexible and willing to adjust or even reverse decisions when circumstances require. Changing policies in response to the situation is natural, and I admire his ability to think boldly and act decisively.

Growth strategy and human capital strategy

Kuniya: Looking back at the fiscal 2024 Board of Directors meetings, what impressed me most was the discussion on how to allocate the cash accumulated from the record-high profits. Okamura took the lead in emphasizing investment in human capital.

Okamura: In fact, I have been emphasizing investment in human capital since around three years ago, when we formulated the current medium-term management plan, as profits began to grow significantly four to five years ago. This is not because I see any shortcomings among our employees. When considering where to invest the profits we generate, the most important asset is our people. Of course, shareholder returns are important as well, but to enhance the Company's corporate value, the true source of that value lies in our human capital. Investing in our people ultimately benefits the shareholders who support the Company over the long term.

Kuniya: I believe highly motivated, persistent, and positive-minded individuals have great potential. Increasing compensation attracts top talent. From an organizational perspective, it's effective to first broaden the talent pool through human capital investment and then identify those who will assume core roles. There are also capable individuals overseas, and recruiting key personnel internationally would further strengthen organizational diversity.

There are instances where digital technology and AI can support the transfer of technical expertise. For example, preparing estimates and bids is demanding work, but because these tasks follow certain patterns, technology can be leveraged to improve efficiency.

Sasano: Beyond the transfer of technical expertise, I'd like to touch on the diversity that Kuniya mentioned. The Company is a traditional organization with over 100 years of history, and many of its executives and managers have worked here for decades. As a result, the company culture tends to be relatively homogeneous. This unity can be a strength when everyone works toward the same goals, but it also raises concerns that innovation, doing things differently from other companies, might be hindered. If we aim to explore new areas that set us apart from other companies, we need to establish a system that welcomes independent, self-reliant talent whose mindset might differ from the existing company culture.

Okamura: I think that by selecting employees from a pool of highly curious individuals eager to take on various challenges, the Company can both enhance diversity and attract the talent that we are looking for. But to make that work, we need a system that really values and supports these individuals, including appropriate compensation and development opportunities. Investing in human capital is essential not only to secure talent but also to nurture those who join. And if we want to fully leverage new talent, the corporate culture itself must evolve, making it important to take gradual, deliberate steps in that direction.

Sasano: On the other hand, when it comes to M&A, we usually focus on acquiring companies in the same industry, partly as a means of securing talent. That's kind of unique to TOA CORPORATION, where investment in people is also considered an investment in growth.

Sekine: Having spent many years in the financial sector, I find a similarity between finance and general contractors in that a company's value comes from its people. Without investing in talent, you cannot outperform competitors. Looking ahead, as experienced engineers gradually retire and their numbers decline, how each company survives will be a critical, existential issue.

Tamai: As an accountant, I focus on specific industries, and I find the construction industry particularly unique. First, it is heavily labor-intensive, which makes investment in human capital essential. Regarding M&A, because of this labor-intensive nature, unlike in service or manufacturing industries, acquisitions inevitably involve essentially "buying labor." At the same time, considering the mission of providing social infrastructure, we must ask whether maintaining a purely labor-intensive model is sustainable. Over the long term, it would not be surprising for this industry to adopt new technologies such as robotics to transform labor-intensive processes, which could open up entirely new frontiers for construction.

Sasano: Indeed. While the Company is currently advancing digital transformation with a focus on efficiency and labor-saving, we have not yet reached the stage that Tamai mentioned—where DX and IT are used in a more drastic way to replace human labor.

Sekine: The industry faces a severe labor shortage, making it inevitable that solutions will need to rely more on automation and technology. For human capital, the current focus is on expanding the number of experienced engineers, but addressing the broader range of tasks and specializations across the workforce is a national issue for Japan. As an outside director, visiting the Company's facilities and witnessing its impressive history spanning over 110 years has been remarkable. However, I feel it is essential to start discussing the Company's positioning for the next 100 years, as well as its outlook 10 or 20 years from now.

Expectations for the Company and the role of outside directors

Tamai: Periods of strong performance, like now, represent a huge opportunity. How the Company leverages this—through human capital investment and other initiatives—will shape its future. When performance declines, dissatisfaction can arise and cause disruption, so it is crucial to recognize that this is the best chance for everyone to move forward together as one team. I hope the Company approaches its initiatives with this mindset.

I am also a certified public accountant, so I believe that my expertise is expected to contribute valuable insights. In particular, I aim to fulfill my role as an outside director by keeping in mind discussions from a corporate finance perspective on issues increasingly emphasized by the stock market, such as improving the Company's price-to-book ratio.

Kuniya: It is also important to have a strong commitment to remaining a leader in this field. Drawing on my experience in project management, M&A and investments, international business, research and development, intellectual property, risk management and response to misconduct, and dispute resolution, I aim to actively participate in discussions and fulfill my supervisory responsibilities.

Sasano: When a company grows, revenue typically increases first, and the organization catches up a little later. Currently, our organizational structure is slightly behind the pace of revenue growth, which I recognize as raising the risk of stumbling amid higher volatility. I hope the Company navigates these challenges skillfully to reach the next stage of growth.

In addition to leveraging my expertise as a certified public accountant and tax accountant, as well as my practical experience as a business executive and knowledge of internal controls and governance, I aim to use my position as an outside director to serve as a bridge between the Company and external perspectives. By facilitating dialogue with both internal and external stakeholders, I hope to contribute to enhancing the Company's credibility while reflecting the "market's eye" and society's expectations that are often hard to see from inside.

Okamura: One characteristic of our workforce is a shortage of employees in their 30s and 40s, which means that young staff must be promoted to site manager positions to keep operations running smoothly. This presents a significant opportunity for younger employees, and I hope they approach it with curiosity and a willingness to take on challenges. I believe the Company's real capabilities exceed what the market currently reflects in the stock price. However, because stock prices also factor in future expectations, it is essential that investors have positive expectations for TOA CORPORATION's future. To do this, the Company must demonstrate a clear growth path, starting with how the increasingly accumulated profits will be used. My primary role is to both encourage and carefully evaluate proposals for new uses of these profits while carefully assessing the substance of those proposals.

Sekine: Risk and opportunity are two sides of the same coin. Because the Company is performing well, I want to encourage it to take calculated risks—after fully understanding the risk-reward balance and evaluating various scenarios. With its team of experts, TOA CORPORATION is highly reliable in maintaining the status quo, but that inward focus can make it harder to pursue initiatives that distinguish it from others. Given the Company's tradition of careful and steady execution, I aim to provide constructive support when bold decisions are needed.