

Corporate governance special three-way discussion

The role of the Board of Directors in achieving sustainable growth and enhancing corporate value

JR-West Group has appointed several external directors (external directors and external auditors) to enhance and strengthen the monitoring and supervisory functions of the Board of Directors.

In this round-table discussion, external directors Yumiko Sato and Yuzo Murayama exchanged views with Shoji Kurasaka, Director and Senior Managing Executive Officer; General Manager of General Affairs Department, about various topics including strengthening governance and the conditions required for the Group's further growth.



Shoji Kurasaka
Director and Senior Managing Executive Officer;
General Manager of General Affairs Department

Yumiko Sato
External Director

Yuzo Murayama
External Director

External director profile

Yumiko Sato

Professor, Faculty of Regional Development Studies, Otomon Gakuin University. Member of the Board of Governors, Japan Broadcasting Corporation. After joining Suntory Co., Ltd., she became General Manager, Research Institute on Continuity and Change in Life, and General Manager, Next Generation Institute, following which she was Senior Research Fellow, Suntory Foundation. She assumed her present post in 2013. Became an External Director of the Company in 2010.

Yuzo Murayama

Professor, Doshisha University Graduate School of Business. Member of "Safety & Security" Expert Council for the Strengthening & Promotion of an Innovation Strategy, Cabinet Office. Assumed his present post in 2004 following positions including Deputy Chief Research Fellow, Economic Investigation Division, Nomura Research Institute, Ltd., and Assistant Professor, Osaka University of Foreign Studies. Became an External Director of the Company in 2010.

Becoming a company that provides value to a wide range of stakeholders

Kurasaka I believe our external directors play an indispensable role in the JR-West Group, and are arguably the cornerstone of governance. First of all, could you talk about your first impressions when assuming the post of external director?

Sato When I first came to JR-West about nine years ago, it was only responsible for transportation services in the

public sector, and I had the impression that it was a really serious company. I recall feeling how strong the vertical hierarchy was, with a clear chain of command, partly because at Suntory, where I previously worked, the corporate culture emphasized doing things freely, at your own responsibility.

Murayama Like Sato-san, I came here about nine years ago, and I certainly had the impression that the company was a bit rigid compared with a typical private sector firm, and

lacking in flexibility. Although in some respects that's probably inevitable for a company that has a strong public sector slant in its business.

Kurasaka After the Fukuchiyama Line derailment, we drew up a new Corporate Philosophy and revised our Safety Charter, and we have also made continuous efforts in activities aimed at ensuring safety, as well as customer satisfaction. What are your views about the Group's raison d'être and the value we should be providing?

Murayama I think the Group's value creation is encapsulated in the words "a railway company that coexists with local communities," as set out in the JR-West Group Medium-Term Management Plan 2022, which defines our ideals for the future. In order to provide value to various stakeholders, I think it's important to grow our business with consideration for the future of local communities, underpinned by "safety and security," which is at the heart of the transportation operations.

Sato As the market for the transportation business shrinks due to the declining birth rate and aging society, I think the perspective of "growth as a private sector company" is also important. Without that, it would probably also be difficult to fulfill our fundamental mission as a provider of public transportation. By further developing our non-railway business, which is a current area of focus, we can also safeguard our public sector mission. I think the balance of that is important.

Kurasaka Earnings from the non-railway business have grown to make up about one third of the total, so our business is still focused on railways. I'd like JR-West to grow while maintaining a balance between the railway and non-railway business, as you pointed out, with "safety and security" at the foundation.

Murayama There are probably still only a small number of people who talk about JR-West as "a railway company that coexists with local communities." In that sense, we're only half-way there. Although we are making steady efforts at developing activities that make local communities happy, focused on the Western Japan area, our image as "a railway company that coexists with local communities" will not become established in society unless we look to revitalize regional areas a bit more creatively. In some respects we're not doing the most we can in this area, despite the huge potential.

Sato Since becoming an external director, I've also realized how the Company has been engaged in various initiatives, such as tourism development in collaboration with local communities and travel providers, but this isn't very well known. I'd like this to be promoted a bit more.

The importance of pursuing customer satisfaction from a broad perspective

Kurasaka As well as your deliberations on the Board, you are also both actively engaged in activities such as site inspections and exchanging views with our employees.



Could you tell me about the impressions you've gained through those activities?

Sato I'm very grateful to have had many opportunities to visit the sites of operation in different areas and hear direct feedback. I also have the chance to attend to various events, including presentations on customer satisfaction. Previously, there were many presentations about the initiatives being carried out at a particular site, and I sometimes felt that a lot more could be done from a Groupwide perspective, but recently this has changed considerably. There has been an increase in large-scale customer satisfaction initiatives at the companywide level, including Head Office, rather than just at particular sites. I've particularly felt that the scope of what can be done is widening among our younger employees, and that they're doing their very best.

Kurasaka I've also seen various operational sites, and I have a keen sense of how the desire to do good for the community—not just for your own railway station or the Company—has increased little by little.

Sato There are also many more instances of women thriving in the workforce. It really encourages me to hear people saying that their perspectives have widened after experiencing various worksites.

Murayama We have many dedicated staff members who perform the work assigned to them carefully and thoroughly. However, one issue is how to respond flexibly when something out of the ordinary occurs. If we are going to improve customer satisfaction, we need to hone other soft skills, such as communication skills. As well as performing our assigned work assiduously, I think we should broaden the scope of our activities, such as by approaching customers voluntarily to build relationships, and this should also raise our visibility.

Sato Recently, I think it's very positive to see how efforts being made at the local level are often seamlessly supported by staff from Head Office too, and in that respect it's important to have the sensitivity to perceive the hard efforts being made by the local sites. I'd like Head Office to fully digest the objectives and efforts of the local sites, and work to resolve issues together, rather than the local site simply doing the best it can by itself.

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Kurasaka The local sites, branches and Head Office each have their own role, but as you rightly say, it's important to further deepen our mutual cooperation. Ultimately, reducing the difficulties experienced at the local level enhances the value provided to the customer.

Wide-ranging opinions stimulate Board discussions

Kurasaka Our Board of Directors includes external directors from various backgrounds. This is also true of you both: Sato-san has researched issues such as life, culture, and generational changes in lifestyle at a Research Institute and Foundation at Suntory, as well as university. And Murayama-san has experience of consulting on economics and business trends at Nomura Research Institute, and has conducted research at university on areas such as CSR-related issues and business strategy amid changing international relations. How do you approach your work on JR-West's Board of Directors, based on that experience?

Murayama Actually, in a sense I think I'm a different type of Board member to the others (laughs). I don't have experience of being a director in a large corporation, so I'm a slightly different shade to the rest. In part because of that, when I first attended a Board meeting, I found it a bit difficult to get used to the very formal atmosphere. I felt that the discussion could be a bit freer. A discussion doesn't liven up without constructive two-way debate. So I endeavored to speak up whenever I felt some doubts about something, even if only minor.

Sato In that sense, both Murayama-san and myself are "different types" (laughs). Actually, I think it's valuable for people like us to speak out from a slightly different perspective and change the atmosphere of the meeting.

Murayama I especially try to represent the external perspective and the shareholder's perspective at meetings. I might say that something feels a bit incongruous from an external perspective, or that this is how a shareholder would view something.

Sato I think it's important to see things from the perspective of the employees performing the work, as well as the user's sensibility. I always keep two things in mind: are the employees convinced, and how does it feel from the user's standpoint?

Kurasaka From what you've explained, I can see how you both speak at meetings with an awareness of the perspective of the Company's stakeholders. In the light of that, what do you particularly value during Board discussions?

Sato What I value is to "think from the local viewpoint." Specifically, whether there is a gap between management and what the staff members are thinking and feeling in performing their work. I'd like there to be discussions from the perspective of building a company in which anyone can work with ease, and of course that applies to the active participation of women as well. And also, I try to speak with a sense of what the users of the railways and facilities themselves feel. Additionally, coming from outside the company, sometimes it's difficult for us to grasp the background to policies that are tabled for discussion, and how they were drawn up. So for example, I'd like there to be greater discussion about the overarching direction, such as how those measures are positioned within the Group's overall strategy.

Murayama Yes, because it's difficult to make the correct judgment if you don't understand what kind of background a project emerged from and how it's positioned within the overall strategy. It's not just a question of, "We'll invest this amount in this project." However, as we'd already highlighted this issue several times in the past, there has been considerable improvement.

The Board of Directors as a place to convey one's own thoughts and passions

Kurasaka I think that active discussion by the Board of Directors is a prerequisite to enhancing corporate governance and corporate value, and so I wonder what your assessment is of current Board discussions?

Murayama Discussion is much livelier than it was nine years ago. The atmosphere is brighter too, and there are more opportunities for everyone to say what they really feel in a relaxed way. In conjunction with that, the content of discussions has also deepened, and overall I think it's moving in a very positive direction.

Sato As well as we external directors, the internal directors also speak out a lot more, don't they? There's no



longer any feeling that only certain people are speaking while the rest listen quietly, and opinions are stated from various angles. However, ideally, I'd like the internal members to express their thoughts and passions about their work to a greater extent. Such as why they want to implement a particular measure, and what they want to achieve through that. I think the Board is also a place for sharing those thoughts and that energy.

Kurasaka On one occasion, an issue I was involved with was approved after receiving multiple opinions, and it wasn't just about getting it approved—it was also approached on the basis of whether it should really be done.

However, what do you think about the level of information support you receive, such as presentations and materials ahead of Board meetings, and visits to the various divisions?

Murayama I think it's done really well. The appropriate materials are provided, and we are given good access to site operations, so when a related issue arises, we have a good feel for it. It's a completely different matter to talk about something with a real feel for the actual site of operation, rather than just a desk-based understanding.

Sato Yes, it's often difficult to understand something without seeing the actual site. Just the other day, I visited a railway control center, and I really understood how everyone worked together as a "community" and also the feeling of distance. Recently, I accompanied some auditors on a visiting audit, and I was able to share an awareness of the issues with the auditors, which was very meaningful for me.

Aiming for further growth while sharing values throughout the Group

Kurasaka In terms of strengthening governance, another important issue is to enhance transparency in relation to matters such as the personnel and remuneration policy for directors. We've established a Remuneration Advisory Committee chaired by an external director, and personnel matters for directors are debated at a Personnel Committee composed of internal directors, and are considered by the Board of Directors. I think this needs to be enhanced even further. Based on this, could you give me your views on how we should develop human resources and the

management team in order to realize growth for JR-West Group in the coming years?

Murayama Human resource development is one of the most critical issues for a company, and for us to be involved as external directors, I think there probably needs to be more in-depth discussion by the Board concerning the nature of HR development at JR-West Group. I'd like to hear more about what kind of personnel and leaders members want to develop for the future, what kinds of measures are being implemented to achieve that, and what the actual results of those measures are.

Sato Expansion of the non-railway business is essential for the Group's future growth, and to achieve that, we will need personnel with a different skillset to the past. I also expect to see a greater diversity of human resources working together at the same site. How we think about that kind of HR and organizational strategy is an important issue for the future, I think. When developing human resources, it's not just about hiring "outstanding" talent – it's also important how we stretch people with potential, so we need to take a long-term view of that. In that sense, I think there's still plenty of scope for women to be more actively involved in the workforce.

Murayama I think the Company is now at a major crossroads. If we are to grow the non-railway business significantly, the organization itself also needs to transform so as to be able to support this. As part of that process, I think it's important for us to share a vision of what the Group as a whole should be aiming for, so as to bring a sense of unity to the Company.

Sato I agree. Developing two kinds of business in parallel—one that is charged with a public infrastructure mission in the form of public transportation, and another that involves competing in the same arena as private sector firms—inevitably brings difficulties. To overcome these difficulties, I think it's important for the entire Group to share common values and a common mission, and for every employee to keep this uppermost in their mind.

Kurasaka Thank you very much for giving me your views today. It's been a very valuable discussion.

