

Direction of Taikisha's CSR Initiatives

Taikisha is conducting business globally, guided by its "Customers First" mission statement. Taikisha carried out an interview with a CSR expert to seek advice on how Taikisha should drive forward with its CSR initiatives going forward.



Koji Kato

Joined Taikisha Ltd. in 1978. His past positions include Managing Corporate Officer and Chief General Manager at the Green Technology System Division, as well as Director, Managing Corporate Officer and Chief Executive at the Corporate Planning Headquarters and in charge of Environment. Assumed his present position in 2016.

Non-Financial Information is Growing in Importance

Mr. Kato: We published our first CSR report in 2015 by expanding on our conventional Environmental Report. The major aim is to appropriately communicate our CSR policy and initiatives to stakeholders. We have set out the "Customers First" mission statement, and we will position the CSR Report as an important tool and utilize it effectively so that this spirit spreads among our members and is practiced in Taikisha.

Mr. Takegahara: Development Bank of Japan, Inc. (DBJ) used to play the role of providing policy-based finance to promote the Japanese government's policies and programs from the financial side.

Meanwhile, policy needs change constantly with the passage of time. For instance, companies taking environmental measures only needed funding for capital investment to control pollution before. However, companies are now being required to shift to environment-friendly operations in their entire business activities. In order to respond to such change, we developed DBJ certification programs of rating companies based on the level of environmental responsiveness, business continuity and consideration for employees' health, etc. and set loan conditions based on this rating 12 years ago. We have continued to provide the certification programs as a service even after our conversion to a joint stock company. Our approach has something in common with ESG investment* which focuses on non-financial information such as environmental, social and governance factors of companies. Non-financial data

is now becoming essential information for financing.

*Investment approach that integrates environmental, social and corporate governance criteria into investment decision making.

Practice of the Mission Statement and Direction of the CSR Initiatives

Mr. Kato: We view our customers as being general society that includes clients, business partners, employees and their families, shareholders, supervisory authorities, the global environment, and communities/societies. And we have directed efforts toward generating benefits and happiness to all our customers. At Taikisha, practicing the "Customers First" mission statement is inseparable from our business operations, and we believe it leads to the idea of CSR.

Mr. Takegahara: CSR is now interpreted not as making social contributions but rather as generating social value through core business activities.

The statements of income shows the payments Taikisha makes—payments to business partners for goods and services received, payments to employees as salaries, payments to financial institutions as interest on borrowings, and payments of taxes, etc. Dividends to shareholders are paid from the profit remaining after those payments are made. So, some may argue that maximizing dividend payment is what it takes to reward all stakeholders, and hence maximizing dividend boils down to practicing CSR. However, this idea does not take the next generation and environment into account. Meanwhile,

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Responsibility-Support Department at the time of interview)

Taikisha considers general society including these parties as customers to define CSR. I believe the spirit of “Customers First” is consistent with the direction that society requires CSR initiatives to head in.

Efforts in Core Businesses and Materiality

Mr. Kato: We acknowledge that our core businesses have a vital role to play in society, since we must contribute to solving, in particular, the environmental issues of customers. Our CSR Report is designed to disseminate information on our business activities from the aspect of CSR, and we hope that the report will provide the way for our employees to reacknowledge our CSR initiatives.

Regarding delivery of information, it is easier to communicate financial information because there are well-established benchmarks available. On the other hand, there should be common benchmarks regarding information related to social responsibility and environment responsiveness for the information-providing party and information-appraising party.

Mr. Takegahara: I agree with you. Investment is a long-term commitment to the growth of a company. Therefore, it is necessary to examine the environmental, social, and corporate governance initiatives of a company (collectively called “ESG”). The Stewardship Code is directed at institutional investors to facilitate constructive dialogue with investee companies, while the Corporate Governance Code is aimed at companies.

Companies are now required to

determine materiality (material matters), which relates to non-financial elements that support the long-term growth of a company, and communicate it externally. Setting KPIs (key performance indicators) that clearly show the efforts of a company for factors that are recognized as material internally and externally is essential for the growth of Taikisha. From the viewpoint of outsiders, it demonstrates that Taikisha generates profits while contributing to society.

For Taikisha, I believe environment-responsiveness is the keyword. If you can show how much growth in sales at Taikisha is equivalent to how much reduction in CO₂ emissions, that can be a long-term growth indicator stakeholders are asking for.

Contribution to the Environment through Business Activities

Mr. Kato: We have two core businesses—the Green Technology System Division and the Paint Finishing System Division. The Green Technology System Division mainly handles air-conditioning systems, which will run for 60–100 years with replacement of facilities. Paint finishing plants will last for as long as 30–40 years. We considered how we could make a positive impact on the environment through these facilities. As one approach in this direction, we started calculating GHG emissions in accordance with the Scope 3 standard. The idea is to visualize how the emissions from the operation phase of the facilities we provide are larger than those from the construction phase, and demonstrate our technological capabilities to reduce emissions.

Mr. Takegahara: There is a concept called CSV (Created Shared Value) which seeks to



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generate economic value and social value simultaneously by solving social issues through core business activities. Taikisha's two core businesses are practicing CSV. The Green Technology System Division achieves energy saving in air-conditioning systems operated at customers' sites. Then, customers are able to reduce their day-to-day energy costs and contribute to realizing a low-carbon-emission/zero-emission society over a long period of time. I think Scope 3 will be a good KPI for Taikisha too.

The Paint Finishing System Division is also an interesting case of CSV. In this business, Taikisha has succeeded in reducing emissions of VOCs (volatile organic compounds) as well as improving customers' productivity. While automobile manufacturers, which are your customers, are required to improve their non-financial capabilities, CO₂ and VOC emission reductions achieved by these companies over time are thanks in large part to your technologies.

Mr. Kato: We believe we have a competitive advantage in this field.

Turning Diversity as a Global Company into Competitiveness

Mr. Takegahara: Considering what materiality is to Taikisha from social aspects, I think it is human resources, which are the source of your growth. In particular,

Taikisha is a global company with the ratio of overseas sales exceeding 50%. You are required to demonstrate the same quality of work in overseas projects as you do in domestic projects, so you are working on fostering engineers on a global basis.

Mr. Kato: The key to the growth of Taikisha is the success of our overseas operations. We started overseas operations early on. In fact, we set up operations in Thailand in 1971. Naturally, we have been working on diversifying human resources. We have many national staff working at our overseas sites. However, we saw some room for improvement in our personnel system to allow such national staff to play more active roles in the workplace, and we have been rapidly reviewing the global human resource system for several years. We also started publishing an English version of the CSR Report this year to help our overseas staff all head in the same direction.

Mr. Takegahara: When it comes to diversity, we tend to focus arguments on gender issues (social and cultural gender differences) in Japan. It is necessary to promote women's career advancement. However, I think it is the right course of action to pursue diversity of global human resources first if it is easier to do. I suggest Taikisha spends a lot of time having discussions internally and externally and determines what it will focus efforts on as social materiality (a material matter).

Strengthen the Management Base by Improving the Corporate Governance System

Mr. Kato: We are conscious about how we are viewed from overseas in terms of information dissemination regarding corporate governance also, and we publish an English version of the Corporate Governance Report as well. In accordance with the newly established Corporate Governance Code, we submitted a new Corporate Governance Report. I feel that awareness of corporate governance issues, such as supervision and evaluation of Directors, has grown significantly within Taikisha.

Mr. Takegahara: What investors expect from a business manager is to run Taikisha so as to enhance its corporate value over a long period of time.

Considering this, it is essential to explain to investors that monitoring and motivating systems have been in place and are running properly at Taikisha.

Mr. Kato: What we need to do first as far as corporate governance is concerned, is to explain our CSR policy to investors appropriately.

Mr. Takegahara: Exactly. There are an increasing number of companies which have established corporate governance

systems but have failed to keep them operating properly. In response to such situation, new standards and systems are being established. I believe accommodating those new standards and systems properly will lead to a stronger management base for Taikisha.

Expectations for Taikisha

Mr. Kato: Our agendas have changed with the changes of the times.

Mr. Takegahara: There are two themes I hope Taikisha will focus on going forward.

One of them relates to the supply chain. When you operate business globally, your dependence on local supply chains will increase naturally. Then, you will need to appropriately deal with broad-ranging CSR issues including human rights issues such as child labor and forced labor. Advancing environmental measures is sufficient as Taikisha's CSR initiatives in its downstream corporate operations. Regarding the supply chain, on the other hand, by conducting CSR activities globally, Taikisha can get an overview of, and externally communicate, its social impact throughout the entire value chain from upstream to downstream.

The other theme is indicating a timeline of activities. The 2015 United Nations Climate Change Conference (COP 21) adopted an agreement on the global action plan to reduce GHG emissions due to human activities to a level that can be absorbed by the Earth's ecosystems, toward realizing the so-called zero-emission society. In line with this, we will be required to achieve greater levels of energy saving than ever, and I think it's a great opportunity for Taikisha to prove its technological capabilities. Publicizing Taikisha's GHG

reduction scenario in the medium and long term will make the direction of Taikisha's efforts match social needs.

Mr. Kato: Thank you very much for that valuable advice. I got a clear picture of CSR issues that need to be addressed to expand business operations globally. We will steadily work on our CSR initiatives and information disclosure and develop technological abilities further to both contribute to solving social issues and achieve sustainable growth.



VOICE



Yandre Edwiyarno
Director
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Working toward the Development of Taikisha Indonesia

—Introduction of a new human resource system to further promote the penetration of the “Customers First” spirit

Since I joined P.T. Taikisha Indonesia Engineering in 1993, I had experience in the Design and Estimation Dept. and then in the Sales Dept. from 2011. I currently serve as Director overseeing sales mainly targeting non-Japanese clients. I have learned a lot about how to identify and respond to needs of clients. I mostly work in a multinational setting, and I am endeavoring to meet the needs of clients in the global market.

For Taikisha Indonesia, whose core business is engineering services, “people” are the key to the success of the business. I believe the global human resource system which Taikisha is introducing will help to significantly improve the human resource system

of P.T. Taikisha Indonesia Engineering and enhance the motivation of its national staff. I also think that providing training to national staff will help us to become a reliable partner for our customers.

Indonesia is a developing country and is expected to attract increasing investment flow not only from within the country but also from nations around the world. Under these circumstances, what we need to do to prepare ourselves for global competition in Indonesia is to effectively break down the purpose of the global human resource system into the human resource system of local operations, and develop highly motivated and competitive national staff and engineers.