

Feature

Interview with Independent Directors: Effective Governance for Sustainable Value Creation

**Scott Trevor Davis**

Member of the Board
Chairperson of the Board of Directors
Member of the Nominating Committee
Member of the Compensation Committee
Chairperson of the Governance Committee

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Member of the Board
Chairperson of the Compensation Committee
Member of the Nominating Committee

**Kenichi MASUDA**

Member of the Board
Chairperson of the Nominating Committee
Member of the Compensation Committee
Chairperson of the Compliance Committee

Discussions for the 24MBP and the Board's Awareness of Challenges

—What kind of discussions took place within the Board of Directors in formulating the 24MBP? Please also tell us what you try to be mindful of during discussions.

Davis: In formulating the 24MBP the Board set the agenda several years in advance and engaged in thorough discussions, including those taking place within the Global EXCO. Bridgestone's strategic direction is to transform from being a world-leading tire company into becoming a global sustainable solutions provider. In order to enable this seemingly subtle but significant qualitative shift in strategy, a wide range of issues must be considered in order to make clear what must and must not be done in order to achieve a business defined by the keywords of both "premium" and "sustainable."

Due to Bridgestone's wide global presence and long value chain, requirements at each level vary greatly, from raw material such as natural rubber, through development, production, retail and up to value-added solutions such as retreading and maintenance. The Board's primary concern is whether Bridgestone has the necessary strengths to adapt to change. We need to clearly understand what this means and requires in terms of sustainability and premium quality and to be prepared to make the changes and investments necessary. To this end, we often seek the input from divisional and department heads and from personnel working on the front lines of business ("Genba" in Japanese) to further enhance our understanding of where Bridgestone currently stands.

For example, with sustainability one key concern is whether we are meeting the demands and expectations of our stakeholders with particular attention to the development and sourcing of sustainable raw materials. In addition to improving the productivity of current sources of natural rubber, Bridgestone is also promoting the development of alternative crops such as guayule. The expectation of both the Board and investors here is that Bridgestone will achieve sustainability through innovation. Sustainably sourced raw materials often incur higher costs. We know that the market demand is not for sustainability as a luxury. This is not what we mean by premium. Bridgestone is committed to pursuing both sustainability and economic rationality. This means the provision of solutions that combine high-value services with premium performance products that are both produced sustainably and promote sustainability for our customers. The word used at Bridgestone to refer to this is Dan-Totsu.

Since technological superiority is essential to providing sustainable premium solutions centered on Dan-Totsu products, the Board often invites the heads of R&D to discuss plans for product and production technologies in order to fully explore the future potential of major new innovations such as ENLITEN and other manufacturing technologies that enable cost advantages.

At the same time the Board is keenly aware of the issues involved in Bridgestone's premium solutions strategy. One key issue is the challenge of creating and maintaining the infrastructure to enable solutions that utilize information both efficiently and securely. The Board actively monitors

the policies and procedures to build and maintain strong systems that can protect customer information, resist cyberattacks, along with the contingency plans for response in the event of cyber incidents.

Global CEO has repeatedly emphasized the importance of adapting to change in terms of both potential value and risk. In discussions with the Board, and investor meetings, he openly acknowledges any areas where Bridgestone falls short and clearly articulates his plans to address them. The Board mirrors this stance. We aim to be clear about what we do and do not expect. We make clear that our concern is to see whether or not Bridgestone has the strategy, the ability and the strength to accomplish what it has set out to do and keep going.

The Board of Directors' Portfolio and Agenda Setting Process to Enhance Board Effectiveness

—Based on the Board's awareness of challenges, is there anything you keep in mind to ensure effective discussions at Board meetings?

Davis: Setting the appropriate agenda is critical to ensuring the quality of discussions at Board meetings. Because of this I regularly seek input from all Board members in selecting and scheduling items for deliberation and in reviewing the effectiveness of previous reports and deliberations. It is also important for the Chair to ensure that information and presentations of proposals from the executive fully address the concerns and interests of the Independent Directors, while at the same time ensuring that the Independent Directors have all the information they require on each agenda item and are able to maintain a shared awareness of the expectations and concerns of the Board as a whole.

One way we do this is by holding information sharing meetings for non-executive directors. To gain more concrete information and deeper insight of critical issues such as cybersecurity, investment in talent and advanced human resources and business quality innovation, we often seek explanations from personnel working at Genba with firsthand knowledge and experience of these issues. These sessions allow the Independent Directors to understand each other's perspectives and concerns as experts in their respective fields and therefore further promote insightful and comprehensive discussions that make full use of the Board's own portfolio of skills, knowledge and experience.

Masuda: We believe that a diverse and balanced portfolio of members is important for the Board of Directors to perform its functions effectively. As a company with a Nominating Committee, etc., the Board of Directors oversees the execution of business operations. However, if the Board consists solely of outside directors, there may be challenges

in understanding internal terminology, technical terms, or who to consult with, which could lead to a problem of not fully being able to absorb internal information. The presence of non-executive directors with an internal background who understand and support both standpoints, adds breadth and depth to the oversight by outside directors and enables them to function more efficiently and effectively. We also expect the executives to understand the supervisory perspective of the Board and approach their duties accordingly as directors.

With regard to the appointment of Independent Directors, we value diversity. By bringing together individuals with different areas of expertise, knowledge, experience and tenure, etc., the same issues can be evaluated from multiple perspectives, allowing for more substantive questions and vigorous discussion. It also creates awareness and synergy by listening to opinions from different perspectives. As an attorney myself, I have a legal background. I have learned a lot from the different angles and perspectives of different areas of expertise, such as corporate management, finance, and economics, and from hearing opinions from different angles.

Diversity does not mean being fragmented, but rather complementing each other's strengths and functioning as a cohesive whole, enabling the Board of Directors to operate as a unified team. We believe that this is the most important and best way for the Board of Directors to fulfill its expected supervisory role and strive for excellence.

—It seems that the discussions at the Board are being prepared and have progressed quite diligently, but were there instances where a proposal was rejected by the Board?

Masuda: Since Independent Directors represent shareholders and external stakeholders, we need to use our respective expertise, understand as much as possible about the Company, and frankly express our opinions when we deem it necessary to change course from an external stakeholder's perspective. For example, in a recent case, the shareholder return policy was rejected once by the Board of Directors and approved at the next Board meeting after further discussions. The policy had been thoroughly developed by the executive team and presented to the Board of Directors. The Board sincerely considered a proposal that there might be a more appropriate way of wording it that would not cause misunderstanding even when read by external stakeholders. This is a good example of how a suggestion from the Board was taken seriously and led to improvements.

Davis: Global CEO Ishibashi is a leader who takes governance very seriously. He respects having an Independent Director as the Board's Chair and the role of the Board itself and its importance. As Chair I have access to the Global CEO and we maintain a monthly one-on-one meeting where I can discuss

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the content of upcoming Board reports and deliberations and raise any concerns. At these meetings Mr. Ishibashi often remarks that if he can gain the agreement and understanding of the Board on some proposal, he can discuss it with any stakeholder outside the Company with confidence knowing that it has already passed a rigorous and objective multi-stakeholder review.

As with the shareholder return policy, the Board members are clearly aware of their roles as the representatives of external stakeholders and are committed to voicing any issues or concerns on their behalf without reservation. This approach of the Board and the CEO combined enables Board meetings to serve as a forum where business strategy can be discussed in a manner which combines the perspectives of both the corporation itself as a business and that of its investors and other stakeholders in order to make better decisions.

Genbutsu-Genba, Bridgestone DNA, and the Design of Compensation System

—In the 24MBP business shaping scenario, there is also an emphasis on Genbutsu-Genba (improvement of operational capabilities). What kind of discussions were held behind this?

Davis: Bridgestone's business is supported by proud and highly skilled employees who represent the best of the industry both globally and in Japan. The Board is therefore very concerned with how effectively the executive is conveying its vision and plans for change with the workforce, and whether the people who support the actual products and workplaces, the employees who are essential for successfully achieving any change, are aware of their role and engaged in its accomplishment. The Board appreciates the fact that the Global CEO and two Joint Global COOs actively hold town hall meetings with employees in order to promote strategic alignment and engagement. In recognition of the importance of this form of internal communication and engagement, objective measures of employee engagement levels have been included as criteria for executive evaluation and remuneration.

Okina: As Dr. Davis mentioned, the Company engages in manufacturing operations, so we also focus on job satisfaction of employees at Genba and sense of fulfillment in their work. In particular, corporate culture changes through the widespread adoption of the Bridgestone E8 Commitment ("E8"), investment in human resources, and employee engagement are incorporated into the sustainability incentives for executive compensation and evaluated by the Compensation Committee.

—Please tell us about your intention to include the E8 and investment in human resources in the sustainability incentives, and what you emphasize in the design of a compensation system.

Okina: The most fundamental idea behind the compensation of top executive management is that it should be an incentive to enhance corporate value.

The Global CEO says that results are everything, and I believe he thinks that way in terms of responsibility rather than compensation. Therefore, we focused on designing a compensation structure that emphasizes results, where the more effort you put in, the higher the rewards curve rises. From the beginning, we have incorporated into our remuneration design the ability to reflect actual earnings in the short term, and the degree of achievement of ROIC, ROE, and other targets in the medium to long term.

Promoting sustainability and transformation may not immediately contribute to profits in the short term, but it is extremely important for the enhancement of corporate value in the medium to long term. To support and encourage these diligent efforts that sow the seeds for the future, we allocate half of the long-term incentives as sustainability incentives.

Specifically, we have included E8 establishment and value creation, investment in and development of human resources, and on the environmental side, a commitment to nature positivity and a circular economy. Sustainability incentives tend to focus on environmental aspects such as decarbonization, but in addition to these, we also emphasize investment in human resources and the establishment of the E8 as a compass for transformation.

Another characteristic and important aspect of our sustainability incentives is to have the executives thoroughly consider and commit to what they are going to accomplish in the next year in advance. We discuss and decide based on the proposals, have them self-evaluate the results on an annual basis, and make decisions through the Compensation Committee. We place importance not only on the progress of indicators but also on the extent to which the committed efforts have been achieved as the target of evaluation.

—How do you see the progress of the initiatives for human capital and women's empowerment during the 21MBP?

Okina: I feel that the Company is particularly enthusiastic about improving the workplace environment at factories and other Genba, and creating fulfilling workplaces. Although the representation of women in managerial positions is still low, the Company's approach in addressing women-specific health issues, such as introducing the use of FemTech is progressive and highly appreciated, given that health management is generally focused on mental health and male-centered health issues like metabolic syndrome.



Furthermore, various trials have been initiated, including efforts to foster the development of the next generation of leaders and encourage a culture of innovation and challenge. We are hopeful that the effects of these initiatives will be reflected in employee engagement.

Expectations for Bridgestone

—Please tell us what you feel are the Company's strengths and what motivates you to support the Company.

Okina: Having served as an outside director at several companies, including a trading company and a shipping company, I feel that our company demonstrates solid management practices with detailed mid-term business plans and meticulous management including the control of direct material loss ratios. Above all, I am fascinated by the manufacturing industry's ability to innovate through Genba capabilities, technology, and manufacturing, and it is appealing that through such capabilities, we can support people's lives. I visited various factories and was shown the manufacturing and inspection processes firsthand, and was pleasantly surprised by many aspects revealing that our company is supported by the power of Genba, both in terms of technology and passion. I listened with great interest to discussions about intellectual property at Board meetings. I think the Company's intellectual property strategy is unique, such as turning a collection of technologies like ENLITEN into a business model. There is a wide range of possibilities for diverse value creation in pursuit of business sustainability, such as promoting the combination of manufacturing and DX and the use of AI. It will be very interesting to see how tires will evolve, as mobility undergoes significant changes in the future.

Masuda: The profession of an attorney involves providing support to those who seek advice and assistance when they are in need. When I see someone working hard, it is natural for me to want to help and assist them in any way possible. Although it is not limited to our company, when I see the dedication and hard work of not only those who are in

leadership positions, but also those in charge of business divisions and those who work at Genba, I hope that I can be of service to them.

On top of that, Bridgestone manufactures and sells tires, which are essential products that support the mobility society, and contributes to society in that field, including through our solutions business. I am motivated partly by my own love of cars, but also by my desire to support the efforts of everyone who works hard at the Company that plays such an important role in our society.

Davis: As an Independent Director, I believe that it is important not to get attached to the people or the Company. Instead of personal feelings or empathy, I try to think in terms of why it is that I can entrust important projects to these people and what makes them exceptional.

I often engage in discussions with institutional investors, and I recognize that they are not just buying Bridgestone's stock, but rather investing in Bridgestone's growth story of premium and sustainable solutions. I am always thinking about what I can do as Chair of the Board to ensure the realization of this story.

Bridgestone continues to set ambitious goals. Not all have been achieved but I am constantly impressed by Bridgestone's relentless efforts to make up for whatever may be lacking, to capitalize on what is good and to constantly continue to innovate and improve. My motivation is based on my desire to see where Bridgestone's story of premium and sustainable solutions for mobility can lead us.

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