

[Kibe-log]

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#16

Visionary thinking and fighting spirit required for management

Dear Stakeholders, I am Kazunari Kibe, President and CEO of INFRONEER Holdings Inc.
Thank you so much for reading the "Kibe-log" again.

As people may find our new business model of “de-construction” in the form of concessions and public-private partnerships (PPPs), is different from traditional industry views, I am often asked to give speeches at graduate schools of management and other institutions.

I recently gave a speech in front of working students at the request of Hitotsubashi University MBA. The theme was “Major Transformation in Business Domain and the Role of Leaders in it.”

The “Major Transformation in Business Domain” refers to the new business model that MAEDA CORPORATION, the predecessor of INFRONEER, has been pursuing since January 2011, and which INFRONEER has since taken over and is promoting, called “de-construction.”

As I wrote in detail in the previous “Kibe-log” ([Vol. 15 “De-construction” as read from Derrida's “Deconstruction”](#)), what is meant by the term “de-construction” is a shift in business model from the traditional “contracting” that focused on “building” to actively taking business risks such as infrastructure concessions.

The contracting business is a fee-based business in which fees are earned in exchange for the construction of buildings. On the other hand, “de-construction” is a comprehensive business in which the construction company invests itself and handles everything from project structuring, financing, construction, operation and to maintenance. We envision that the public and social infrastructure developed in this way will be sold to pension funds and other funds in the future when the value of the infrastructure can be increased.

Thus, in the business of “de-construction,” the process of “building” is only a small part of the overall business. Moreover, what is important is the long-term operation of the infrastructure and that we do not believe it is necessary to handle the construction in-house. If the quality, price, and construction period are agreeable,

MAEDA CORPORATION, a member of the INFRONEER Group, can build it. And if not, then any other company will do.

For facilities such as arenas, we consider how to extend the top line while optimizing maintenance and management costs during the concession period. For major public infrastructure works such as water, sewerage, and toll roads, the company will ensure efficient management so that maintenance and other costs can be covered by user fees.

If it is better to sell the infrastructure to a fund such as a pension fund, we will continue to operate it, but we will be flexible about exiting the equity portion. This is our concept of “de-construction.”

Sales Supremacy that Made the Company Tumble

This transformation of our business domain began in January 2011, when we declared our intention to shift away from contracting. Since then, we have actively participated in infrastructure concessions to demonstrate, both inside and outside the company, the shift in our business model from construction to operation; we have won concessions for Sendai International Airport, Aichi Prefectural Toll Road, Osaka City Industrial Water, IG Arena (new gymnasium in Aichi Prefecture), and others.

In 2020, we conducted a takeover bid (TOB) for Maeda Road to further promote this strategy. In 2024, we acquired Japan Wind Development Co., Ltd. In 2021, to strengthen the governance of the group, we shifted to a holding structure. The contribution of infrastructure operations to overall profits is about 20%; but we are making steady progress in transforming our business domain.

“The role of the transformational leader” is to envision business domain reforms and create a plan on how to proceed with them. It is not easy to envision changes in business domains or business models, but what is more difficult is to spread and implement such ideas within the company. In my speech, I mainly talked about my experience in this area.

As I have written once in the “Kibe-log,” after joining the company in 1986, I spent the first 10 years of my career traveling around civil engineering sites as a construction management supervisor. They were not large long-term construction sites such as dams but rather relatively small sites such as water and sewage works in urban areas.

After two years in sales, I was transferred to the Corporate Planning Department. At the time, the company was in a difficult situation due to deteriorating business performance following the bursting of the bubble economy and the uncovering of a string of bid-rigging scandals. It was certain that public

investment and construction demand would shrink over the long term as Japan entered a society with a declining population. Against this backdrop, the company had to consider a new direction it should take.

It was after I moved to the Corporate Planning Department, that I had an idea of the business transformation that would lead to the current “de-construction” in my mind. What sparked this was that, since the mid-1990s, major European construction companies had been shifting to a business model of investing in public and social infrastructure such as highways and airports and earning profits from their operation and maintenance.

When the company recorded a loss in the fiscal year ended March 31, 2003, I drafted a reform plan that would lead to the current “de-construction.” It was a structural reform proposal aimed at a drastic change in the company's business fundamentals.

However, there were strong voices within the company that were averse to change at that time and the reforms were never carried out.

Without any drastic changes, the company once again posted a large loss for the fiscal year ended March 31, 2008. In this desperate situation, I, the director of the Corporate Planning Department since the previous year, once again proposed a structural reform plan.

The company then decided to shift to a new business model, from construction to operation, by introducing a business division system. This led to the declaration of January 2011 that we would leave the contracting business and focus on de-construction.

How do we sharpen our fighting spirit?

As was the case in 2003, Maeda Corporation had a widespread belief that as long as it secured the order amount, profits would follow. However, even if an order backlog is built up, it is meaningless if orders are received at a loss or at a low margin.

Therefore, we changed the organizational structure to emphasize profitability by introducing a business division system in which each business division was responsible for its own profits.

In addition, at MAEDA CORPORATION at that time, each work site and branch made business decisions, which was also the source of loss-making orders and bid-rigging. Therefore, we changed the organization

to one in which the head office directly controls the worksites and branches.

As for the contracting business, I felt strongly that there was management risk in relying solely on contracting.

At that time, contracting always carried a risk of loss because there were competitors who were willing to accept loss-making orders. And yet, because it is a fee business with low business risk, the expected return is limited. Moreover, as orders are often tendered, it is difficult to differentiate ourselves by our competitive strengths such as engineering. It is a high-risk, low-return business, so to speak.

In contrast, if we invest in a project and are actively involved in its operation and maintenance, the return on a successful project will be greater. Of course, there is a certain degree of risk associated with the business environment, but it is possible to reduce project risk by leveraging our own engineering capabilities, finance, and other expertise. I thought that this capability is the competitive strength of the company and that controlling risk and return is what management is all about.

In the early 2000s, I met several times with the head of the business department of Hochtief AG, a major German construction company. I visited their headquarters in Essen, Germany during my IR trips to Europe as I wanted to learn about Hochtief AG's infrastructure business. I wanted to fundamentally change the business structure that depended on the contracting business because the words I heard at that time, "If you don't take business risks, you cannot add value to your business," stuck with me.

Subsequently, the company declared its intention to "de-construction from contracting" and expanded its business domain from infrastructure construction to its operations. The decision was made to integrate group companies such as MAEDA ROAD CONSTRUCTION Co.,Ltd and MAEDA SEISAKUSHO CO., LTD., subsidiaries that had not generated group synergies. The company even conducted a hostile TOB for MAEDA ROAD CONSTRUCTION Co.,Ltd, whose senior management had been reluctant to integrate the companies. In this way, we have been reforming old practices, organizational structures, business models, and governance.

Of course, there was criticism and dissatisfaction within the company with such reforms. But we would not have survived without further transformation. Actually, I was prepared to quit at any time if the company's management did not like the reforms I was trying to carry out. I think they understood my determination for transformation. Successive generations of the company management also supported the ideas. As I said in my speech, what is ultimately needed for transformation is visionary thinking and fighting spirit.

When promoting transformation, it is necessary to have the visionary thinking capability to thoroughly consider what the company should be. In other words, we need to consider not only the current state of the company, its competitors, and its industry, but also what will happen to Japan, the world, capitalism, and

liberalism; how will the competitive and business environment for the company be affected, and where will the company shift its business strategy amid these changes?

What is needed for such visionary thinking is liberal arts. Business experience and management knowledge are important but I believe that liberal arts in a broad sense, including history, philosophy, and religion, are indispensable for understanding the world and the market at a deeper level. From my early 40s, I attended the Fushiki-juku(Academy) of Open-Minded Learning hosted by Iwao Nakatani, a management scholar, where I was significantly trained.

And complementing this visionary thinking is fighting spirit.

As I mentioned earlier, even if you develop an idea, when it comes time to implement it, you will encounter fierce resistance from both inside and outside the company. In order to push forward with your idea in this situation, you must have the fighting spirit to persuade such resistance forces. It is not just a matter of defeating them, but a steady battle of asserting what needs to be said, gathering colleagues to move the reform forward, building momentum, and making it a major movement.

The source of my fighting spirit was my determination to quit at any time and my confidence that I had thought things through better than anyone else. I was always prepared to quit while expressing my opinions. Although I was over 40 years old, I studied intensely under Mr. Nakatani. I believe that I was able to gain the support of various supervisors, colleagues, and staff because people have seen my efforts.

I have written a lot of great things, but INFRONEER's "de-construction" is halfway there. We have not yet reached the world we envision. I will continue to push forward with "de-construction" to prove that the path we are on is the real transformation of the construction industry.