

Governance Roundtable Discussion



Yasuo Takeuchi

Director, Representative Executive Officer, President and CEO (Member of the Nominating Committee)



Sumitaka Fujita

Outside Director (Chairman of the Board / Chairman of the Nominating Committee)

Corporate Governance to Enhance Management Capabilities

In executing the corporate strategy, Olympus is also focusing on strengthening its corporate governance. For this special feature, four directors held a discussion on the current situation.



D. Robert Hale

Outside Director (Member of the Nominating Committee)



Susumu Kaminaga

Outside Director (Chairman of the Compensation Committee)

Faster Management Action Enabled by the Transition to a Company with Nominating Committee, etc.

Takeuchi: Corporate governance is essential for ensuring the sustainable growth of a company, but I think there has been a tendency recently to equate the strengthening of the Board of Directors' monitoring function to ensuring corporate governance. In

corporate governance, however, business execution plays just as important a role as monitoring. In line with this, I believe that a combination of execution and monitoring ensures corporate governance. In June 2019, Olympus transitioned to a company with Nominating Committee, etc. One of our major management issues is to think about management from a global perspective in order for us to compete with global medtech companies. We

recognized that the speed of management action in particular was an issue. To ensure these factors in corporate governance, I thought that a company with Nominating Committee, etc., would be suitable as the form for the Board of Directors for Olympus. **Fujita:** When developing as a global medtech company, management capabilities are key. I have come to think that it is important for the Board of Directors to focus on monitoring,

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Olympus is strengthening both execution and monitoring to ensure corporate governance.”

Yasuo Takeuchi

and for the executive team to strengthen its executive management capabilities and emphasize speed in execution. With that in mind, I think that a company with Nominating Committee, etc., is suitable as a governance structure for Olympus.

Kaminaga: I also think that corporate governance's most important point is the executive team's ability to take action quickly. The idea of transitioning to a company with Nominating Committee, etc., did not come about suddenly. In 2012, the Board of Directors had switched to a framework in which more than half of its members were outside directors, and the executive team had improved its executive management capabilities, so the next step was to move to a company with Nominating Committee, etc. I think this is a timely decision and fits the purpose of Olympus. With the adoption of a company with Nominating Committee, etc., the role of the executive team takes on a new importance. Since the transition, the executive team has been making great efforts and meeting the purpose for which the change was originally intended.

Hale: I agree the current structure of the Board of Directors at Olympus is part of a long evolution. I think that moving to a company with Nominating Committee, etc., has made management's roles clearer and the discussions at Board of Directors'

meetings more focused on key strategic issues. Governance structure is important, but from a shareholder perspective what really matters is whether there is proper leadership and stewardship.

Fujita: I have also sensed a change in the executive team. Since last year, the five executive officers (5EOs) have established the Group Executive Committee (GEC) in which they deliberate important matters. President Takeuchi has held GEC meetings on a regular and necessary basis, and I think that the 5EOs have improved the speed of execution, enhanced their abilities to plan and formulate strategies, as well as to execute them effectively with each meeting.

Takeuchi: I have been chairing the GEC since April 2019. The first thing I did was to shift from having the secretariat serving as the moderator to a style in which the chairperson would distribute and advance all agendas. In a sense this was the biggest change. I thought it would probably be better for ensuring speed and that the 5EOs would make firm decisions. At first, there were times when we lost our bearings, but now the discussions have become dramatically more productive.

Fujita: The year 2019 marked an offensive phase for changing the governance structure and formulating a strategy, but in 2020 an unexpected situation arose with the spread of COVID-19. During the pandemic, I

appreciate that the executive team quickly analyzed and responded to the problem. I believe that the system of 5EOs has been able to respond to the situation well as a result of sharing an awareness of the issues and accelerating the speed of executive management.

Kaminaga: In the past, I think Olympus was not necessarily strong at sharing and instilling an awareness of issues across the company. Since President Takeuchi assumed the position of CEO, and the new corporate strategy was formulated, I feel that Olympus has improved more on that point than ever before.

Hale: During the pandemic in 2020, management needed to adjust plans quickly given the uncertain environment. I think that they were able to react with immediate consensus on priority actions because the strategy approved by the Board in 2019 has a sharp focus on the company taking steps to become a leading global medtech company. When a company is hit by any crisis, it must immediately determine the most important priorities to meet the expectations of stakeholders. This is much easier when there is sharp strategic focus already in place.

Takeuchi: We are proud that, up to now, we have been able to move quickly and systematically, and respond appropriately. However, I believe that we were able to control the situation

effectively because COVID-19 presents clear risks. Since sources of risk can be somewhat abstract and latent, in normal times certain risks are responded to on an individual basis, without a sense of urgency. Drawing on our experience with COVID-19, we will further strengthen risk management so that we can appropriately deal with a wide range of risks.

Promoting Diversity for Both the Board of Directors and the Executive Team

Fujita: An evolving task in corporate governance is to speed up and strengthen execution capabilities as a company with Nominating Committee, etc. On the other hand, the Board of Directors has outside directors with experience, qualities, and knowledge that are not available within the Company who monitor executive management. It is therefore necessary to secure a wide range of diverse directors in the composition of the Board of Directors. In terms of becoming more global, three non-Japanese nationals have been in director positions since June 2019, but gender is an ongoing issue. The Nominating Committee is always considering the composition of the Board of Directors—and its subsequent composition—according to the management phase of the Company. We are also discussing other matters,

such as the ideal status of the 5EOs, and management succession plans.

Hale: The Nominating Committee is always looking to improve the composition of the Board of Directors from a diversity perspective. There have already been significant changes to the diversity of nationality. Our committee is particularly focused on the Board of Directors' gender diversity next. We would like to add a female director to the Board of Directors in the future. Also, one of the most important transformations we are pursuing is our focus on becoming a global medtech company. For that reason, I expect that the Board of Directors will add more members with medtech and healthcare knowledge over time.

Kaminaga: With regard to gender diversity, Olympus had a female director in the past and we understand the benefits. We consider the current structure of the Board of Directors to be in line with the current state of corporate strategy promotion, but I think it will be necessary for Olympus to strategically promote the active participation of women in the years to come.

Takeuchi: I am a member of the Nominating Committee as the executive team's representative. Given the challenge of enhancing the expertise of executives, I think the current composition of the Board of Directors is appropriate, but it cannot be defined as a singular issue. If no

progress is made with the diversity of the executive team, further diversity of the Board of Directors will not make things function better.

Hale: We are focused not only on the diversity of the Board of Directors, but also on the diversity of the executive team. We are pursuing a high-performance corporate culture as one aspect of our transformation, and we have already hired many talented people globally for various functions at the manager level from outside the company to make sure the company has the right skills and diverse perspectives.

Takeuchi: At Olympus, we often choose people from the perspective of who has the best skills rather than gender, and it is a fact that gender has not always been a high priority. However, our awareness has changed considerably from the past, and although that change may be hard to see with regard to gender diversity, I think that we are heading in the right direction with the introduction of initiatives like training programs for female managers.

Execution of Transform Olympus and the Corporate Strategy

Takeuchi: In 2016, Olympus announced its medium-term management plan 16CSP (2016 Corporate Strategic Plan) and also



The challenge facing Olympus is strengthening its executive management capabilities.”

Sumitaka Fujita

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stated that it would strengthen the medtech business field under that plan. However, when things did not go according to plan, and the actual situation deviated from what was in 16CSP, the executive team was unable to respond promptly to achieve the plan, which revealed there was a structural problem. For that reason, *Transform Olympus* and the corporate strategy were designed to have specific requirements and structures to be implemented in order to become a global medtech company. Of these, the main points are to achieve business growth, to improve the operating margin, and to increase efficiency from more directions than we have ever done before.

Kaminaga: 16CSP was a good plan, but to be frank, I had the impression that Olympus did not seem to be acting as a unit for the growth of the crucial medical field. In particular, we were not able to unify our thinking behind the process of connecting our lifeline of R&D to commercialization and launch. *Transform Olympus* addresses these fundamental challenges and its focus is on evaluating them under an ongoing but more specific plan.

Hale: Constructive discussions were taking place at Board of Directors' meetings prior to the announcement of the corporate strategy. So far many actions have been taken to start deploying the new strategy, and I feel that a lot of progress has been made.

However, in a rapidly changing environment, we must always pay attention to how the changes affect our strategy.

Fujita: Generally, when companies have hammered out a corporate strategy, I think that there are many instances when the target alone is considered sufficient. At Olympus as well, it is necessary for our leader, President Takeuchi, to strongly persevere in instilling values on a global basis for our corporate strategy to reach fruition.

Takeuchi: As you all have pointed out, I think that the focus on medtech has been insufficient so far, but I believe that you can feel that we are now focusing on medtech through various changes. There is, however, a difference between merely implementing a strategy and becoming a truly global medtech company. The important thing is to create a corporate culture in which everyone who works for Olympus can truly believe that we are a medical company and are always thinking about the patients. This is the ultimate goal, and I would like for us to take the time to reinforce this concept.

Introduction of New Executive Compensation System Emphasizing Long-term Incentives

Kaminaga: To achieve the corporate strategy of becoming a global medtech

company and enhance corporate value, it is necessary to secure talented management personnel and create an environment in which they can fully demonstrate their abilities. For that reason, in April 2020, the Compensation Committee introduced a new executive compensation system that emphasizes long-term incentives. We thoroughly discussed how to increase the motivation of executive officers and corporate officers and what incentives there should be. In addition, the degree of contribution to society through ESG initiatives will also be an important element in the years to come, so that has been factored into the evaluation criteria.

Fujita: It has been generally said that the executive compensation system of Japanese companies offers low incentives. It is true that this situation has been changed by the governance reforms of recent years, but prior to those, the fixed portion of compensation was extremely large, and the performance-linked concept was reflected in executive bonuses over a rather short period of time. Our thoughts on executive compensation include performance-linked as well as medium- to long-term perspectives, and I think that this is in conformance with our corporate strategy.

Kaminaga: The executive compensation system will be reviewed every year in light of changes in the environment. What we will continue to



During the pandemic in 2020, management needed to adjust plans quickly given the uncertain environment.”

— D. Robert Hale



To help improve its long-term corporate value, Olympus introduced a new compensation system.”

— Susumu Kaminaga

consider is a global compensation system. Since the situation differs depending on the region, we think that it will be necessary to have one basic stance globally and then adjust the system to an appropriate level commensurate with each region.

Hale: With more than half of Olympus employees based outside Japan, I think the compensation system takes into account the cultural backgrounds of the United States, Asia and Europe as well as of Japan specifically. I think one of the factors that enables this is that the members of the Compensation Committee are people who also possess global management experience. I see the compensation system as one of the Board's communication tools which clearly communicates the goals to management. In my experience, competitive employees want to live up to the expectations set for them. I hope that our compensation system will be able to measure up to that way of thinking in the years ahead.

Fujita: The compensation system is important as a factor that reflects management's thoughts. To become a global medtech company, the compensation system is important not only for directors, but also for the executive team.

Takeuchi: As diversity within organizations increases, ways of thinking about incentives will also become more diverse, and in my view

compensation will remain an important issue. To execute the corporate strategy, it is important to secure talents who will hold important positions. I also believe that close cooperation between the Board of Directors and the executive team will continue to be necessary going forward to reflect the perspective of the executive team.

Rapid Environmental Changes as Opportunities for Transformation

Takeuchi: An organizational issue we recognized is the harmful effect of a regionally split organizational culture. For example, when we started working from home across the company to deal with COVID-19 infections, we found that there was a problem with the operational efficiency of back office functions. We are therefore accelerating the development of infrastructure to streamline operations that collaborate on a global basis. Seizing this sudden environmental change as an opportunity, we will take measures in areas where internal issues have appeared and promote transformation.

Kaminaga: I think that the true value of companies comes into question in situations like being forced to respond to COVID-19. If the management foundation is not strong, it will become a weakness when aiming to become a global company. The Board of

Directors, as well as the executive team, was able to recognize issues that had not been seen before, so I think this is a good opportunity for transformation.

Hale: Like many other companies, we have tried to prioritize employee safety and business continuity during this pandemic. In their response to COVID-19, I think the executive team responded promptly with crisis management during a crisis environment. I am also proud that Olympus products have contributed to people's health during the global health crisis. From this standpoint, business continuity is especially critical for a medtech company like Olympus.

Fujita: As it is being said that the world has entered a "new normal," rapid environmental changes are expected, and I think that companies will be required to respond to those changes. At present, we are facing a variety of issues, such as ensuring business continuity and employee safety. However, under such circumstances when management judgments and decisions are difficult, I think that the fact we are steadily executing the corporate strategy, such as the launch of next-generation gastrointestinal endoscopy system and the divestiture of the Imaging business, provides proof that our executive management capabilities are being strengthened.