



Yasuo Takeuchi

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Executive Officer, President and CEO
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Corporate
Governance to
Increase
Corporate Value



Discussion



Akitsugu Era

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The Role of Corporate Governance

Takeuchi: For companies to increase their corporate value, it's important to view corporate governance as systems to create a comprehensive and sustainable virtuous cycle. For many years, I have been thinking about how best to bring out Olympus' maximum potential. When I became a director in 2012, I felt Olympus should be managed with a global management perspective. Since then, I have had constructive discussions with each division and function while also working to strengthen the organization. Since my appointment as CEO in 2019, I have been prioritizing reinforcing diversity to transform our organizational management and increase corporate value. I have also taken the same approach for our executive officers and the Board of Directors and improved diversity.

Fujita: I was appointed as an outside director in 2012, and since then I think the management of

Governance Roundtable Discussion

Olympus can be divided into three phases. In the first phase from 2012, to recover from the scandal, the management team was completely replaced, and throughout this phase we sought to rebuild trust as a company. We changed to a system in which outside directors were the majority of Board of Directors and worked to revamp our management with the executive team. In the second phase from 2016, we launched the growth strategy called 16CSP, which was our medium-term management plan at the time. This plan was to move from regaining trust towards growth. From there, we entered the current, third phase. In 2019, we launched our corporate transformation plan *Transform Olympus* and clarified our vision to become a global medtech company. In June 2019, we changed our governance structure to a company with a Nominating Committee, etc. With the executive team headed by Mr. Takeuchi as CEO, I believe we have an agile management system which is capable of strong execution.

Era: As Mr. Fujita explained, both the execution and governance systems have been changed according to the stage of management at the time, during the three phases. I feel this makes it much clearer and easier to understand the objective and plans of the initiatives.

Fujita: In the first phase, we had to rebuild the management system from a variety of perspectives. I believe that the Board of Directors we had then performed like a management board. However, in the current phase, it has a clear monitoring role. I think the relationship of trust between execution and monitoring is now progressing in a positive direction.

Takeuchi: Starting from 2012, Olympus has become increasingly self-aware of winning trust when running the business. The fact that we have been able to transform at this surprising speed since my appointment as CEO in 2019 is largely owed to my experiences in the preceding seven years from 2012. Corporate value can be enhanced

even without proper governance in place, but I don't think that's sustainable. When I was appointed CEO, my first commitment to all stakeholders was that I make Olympus a sustainable company. This has consistently been my management policy.

Fujita: According to academic research, corporate value and governance do not necessarily have a strong positive correlation. But I think this analysis only focuses on financial value. Recently, the importance of non-financial value is also increasing. Given the trend towards sustainable growth of corporate value in a broad sense, I think the correlation will become stronger as we move forward in the medium to long term.

Era: For me, the purpose of governance is to increase corporate value and how substantial efforts are being made to achieve that purpose. To this end, we ask our portfolio companies and their management, how their Boards of Directors, outside directors are functioning, how companies are leveraging their knowledge and insights. I believe companies with a well-thought-out structures in place, have a clear logic and explanation of the roles and concept for their Boards of Directors and committees.

Takeuchi: From the standpoint of the executive team, I believe it is our role to make effective use of our outside directors' capabilities. I place great importance on diversity, but I know that unless we make a conscious effort, we will not be able to make use of our outside directors' diverse knowledge.

Era: One of the roles of governance is to prompt the management team to respond appropriately and quickly to unexpected and extremely difficult situations, for example, the global pandemic. If we define "good governance" as a mechanism that effectively adjusts to the business situation, I believe in the long run, "good governance" and corporate value will be inextricably linked.

Building Trust for Greater Effectiveness

Era: As Mr. Fujita pointed out, Olympus' Board of Directors has clearly shifted in recent years from a management type board to a monitoring type board. However, I believe some Japanese companies have not fully taken advantage of the monitoring type board, because they are often much familiar in operating under the management type board, due to its long history. It is very difficult where to draw the line between how much authority should be entrusted to the management team and the scope of monitoring for the Board. Also, keeping the right balance is dependent on the relationship, level of mutual trust between the management team and the Board, and the corporate culture. Furthermore, firm management is not static, and needs to adapt to the rapidly changing environment. Therefore, the right balance can easily change if you are not constantly mindful about these changes.

Takeuchi: In our case, I feel that trust between the executive team and outside directors has been growing, but as Mr. Era pointed out, it's difficult to have a good balance of execution and monitoring in some areas. When I feel the Board has crossed into discussing on details related to execution, I kindly ask them to step back by saying, "Since this comes within the scope of execution, please hold back a little."

Fujita: Even in discussions that only involve outside directors, I am sometimes asked, "Is this not going a bit too far?" However, for a monitoring board, it's better that outside directors say what they feel. Outside directors do not run a company, so management is entrusted to the executive team, but I encourage them to proactively make comments if they feel there are risks involved in this issue, or if there are hidden aspects in the execution process. In addition, we cannot discuss everything efficiently in the Board of Directors' meetings due to time constraints and how

frequently the meetings are held. Because of this, after talking with the executive team, briefing sessions and Opinion Exchange Meetings are held outside of Board of Directors' meetings as needed and depending on the topic. By integrating our discussions in regular Board meetings, which are in line with annual plans, and discussions with outside of Board meetings, we are striving to improve effectiveness.

Takeuchi: Mr. Fujita gives us feedback on the important matters discussed at Opinion Exchange Meetings held by the outside directors. In the past year or so, whenever I thought it was more effective to give direct explanations, I have participated in discussions held by the outside directors. Each executive officer normally made a report individually until recently. However, we have received several comments from outside directors that although they understand the individual details, they could not understand how each function was coordinating. To help them have more holistic views, I now take ownership in setting the agenda first, and in setting the scene before others make presentations to prepare the outside directors what they are about to hear. As in this case, the fact that we're constantly striving to change for the better is contributing

to improve the effectiveness of the Board of Directors.

"Purpose" Is the Starting Point for Corporate Governance

Takeuchi: At the end of the day, the ultimate state is where we see discipline of governance reflected in daily management. To that end, I thought Olympus needed a reason for its existence. I felt the need to clarify the underlying ideas of why Olympus exists and what we are working for. Backed by an idea that "purpose" is the starting point for good governance, about two years before I assumed position as CEO, I had already started preparing to formulate Our Purpose, which is "Making people's lives healthier, safer and more fulfilling." And our corporate strategy should be to ensure we fulfill Our Purpose. There is a reason for Olympus' existence, and we do business for that purpose. When we can bring clarity to the expected goals of each employee and if they strive to increase their own value through their assignments, Olympus would definitely grow. That's my view of how the ultimate state of governance works.

Fujita: I believe that what is important in governance is not its form, but that it is based on purpose, and the executive team is managing in the

most effective way to achieve that purpose, along with the Board of Directors effectively carrying out its role as a monitoring board. To realize Our Purpose, we have clarified our aspirations and made a variety of transformations to become a leading global medtech company. In this way, I think it's extremely important to continuously identify new challenges and resolve them in alignment with Our Purpose.

Era: In 2018, our CEO of BlackRock sent a letter to the CEOs of our investee companies around the world, emphasizing the importance of having a sense of purpose. Our belief is that purpose is the foundation for everything, because if management and employees are not engaged in their work with a clear understanding of why the company exists, its purpose, then the strategy and plans will not be consistent. It is extremely important that the management live and breathe the purpose, it is instilled throughout the organization, and rooted in key discussions within the Boards of Directors.

Takeuchi: Our Purpose is both the starting point and the ultimate goal, and we must continually assess whether it's being properly executed in the Company. To make our goal possible, we need a tracking mechanism and have been reforming our HR and IT systems aiming to

“I’m committed to making Olympus into a sustainable company.”

Yasuo Takeuchi



“Integrating discussions from the Board of Directors’ meetings with outside directors’ meetings increases our effectiveness.”

Sumitaka Fujita



increase the transparency of internal information. To integrate and build such systems on a global scale takes time and money. For Olympus to become a truly leading global medtech company, considerable effort will be required, but I believe that we are steadily making good progress toward our goal. Also, from the management continuity perspective, we have placed a lot of importance on the “succession plan.” The direction for succession as an integrated team, including the outside directors, has been agreed upon, so I’m confident that Olympus’ business direction remains unchanged even when the top management changes.

Era: Until hearing directly from Mr. Takeuchi about the importance of purpose and the reform of the Olympus’ human resource management systems, I was not fully aware of the level of commitment. I think it would be beneficial to emphasize through greater disclosure, about the fact that purpose plays a key role in ensuring governance and discipline for Olympus. On a different topic, Olympus has actively carried out several M&As in recent years. As the number of new companies joining the group increases, what are your thoughts on the current state of management and governance related to post-merger integration (PMI)?

Takeuchi: M&A involves all company

functions, we need to be well coordinated to manage the process. Even when we advance the process using a standard PMI process, there is no guarantee that things go according to plan. Every time we conduct M&A, we address extremely complex challenges. Since we encounter new challenges each time, they give us opportunities to grow a little by little. As a medtech company, M&A is essential to expanding our product portfolio and breadth of our technologies and ensuring our growth continues. I believe that one of the major management challenges is to become advanced in our ability to execute M&A effectively.

Composition of the Board of Directors in Accordance with Management Phase

Takeuchi: To increase the effectiveness of governance, I believe it is extremely important to exchange information between representatives from the executive team and the Chairperson of the Board of Directors. Since Mr. Fujita and I are very conscious of this and have built a trusting relationship, the sense of trust is pervasive in the Board of Directors.

Era: It must be quite challenging to find a qualified person with the relevant experience and commitment to serve as the Chairperson of the

Board of Directors. I’m sure it requires significant commitment for Mr. Fujita to take on this role as well.

Fujita: Since becoming Chairperson of the Board of Directors, I have also been participating in the Group Executive Committee as an observer. To enhance our effectiveness as a monitoring board, and as part of our efforts to strengthen and expedite execution, it’s very important for the Board of Directors to understand how the Group Executive Committee operates, what is being discussed, and what issues are being addressed. I believe that the Chairperson of the Board of Directors needs to be strongly committed and able to facilitate smooth communication with the executive team, including my other involvement which is to enhance the effectiveness of the operation of the Board of Directors.

Takeuchi: About three years before the term “skills matrix” became as widely used as it is today, I had been considering the composition of the Board of Directors and what we needed to become a global medtech company. I had felt the need to align the relevant information with skills and experience to ensure the necessary diversity among board members. Therefore, in the Nominating Committee, we discussed the roles of the Chairperson of the Board, the chairperson of each committee, as

well as each committee member. Following those discussions, the proposals made by the Nominating Committee have led to our current skills matrix, but I felt that a Chairperson of the Board would not be able to fulfill the role without special skills. Our basic policy on corporate governance stipulates that an outside director should serve as Chairperson of the Board, but I now believe that a person with chairpersonship skills should be appointed as an outside director in advance.

Era: It’s crucial to continue to have a chairperson that meets the expectations of various stakeholders. I can see that the relationship between the CEO and the Chairperson of the Board of Directors now appears to be very constructive, but I think the challenge is how to ensure continuity. I hope to see this good dynamics maintained in the future as well.

Takeuchi: Realistically, the only way to ensure successful operation is to manage it while bringing clarity to the roles of the CEO and the Chairperson of the Board. Roles and responsibilities of the CEO should be defined as a representative of the executive team, the Board of Directors monitor if his/her performance is fulfilling the roles and responsibilities. Similarly, roles and responsibilities of the Chairperson of the Board of Directors should be defined to enable

the Board of Directors to assess his/her performance. Ideally the process of monitoring and assessment is clear enough to manage with little support, and I am trying to enable this. My idea of the ideal state is to have a culture which continues to improve management quality and that is passed down based on mutual trust between the executive team and the Board of Directors. For that to happen, it is important that the executive team promotes agile and decisive management and the Board of Directors exercises advisory and management monitoring faculty from a strategic and broad perspective, and that the culture aspires to continuously improve quality of management.

Towards Sustainable Increases in Corporate Value

Era: Upon assessing the effectiveness of the corporate governance, we value discussions like the one we did today, rather than looking at only the form such as the Board of Director’s composition. This is why we ask questions on how the Company’s vision and purpose is instilled in the heart of the employees, and whether the relationship between execution and monitoring is appropriate and constructive. By asking these questions, it allows us to distinguish

whether the efforts and practices are genuine or merely superficial. These assessments can be used as a part of our investment decisions, and generally speaking, there is a tendency to continue to invest in the companies that are making true efforts in raising governance standards, for a longer time period.

Fujita: Our management philosophy is rooted in a corporate culture based on Our Purpose and Our Core Values. If we foster these, I believe we will be closer to becoming a sustainable company. Management does not always face the same situations, and it’s natural that corporate activities will change in the future, but I think it’s extremely important to create a foundation for corporate culture and values.

Takeuchi: I always think that when business performance isn’t good, there is probably something wrong with the corporate governance. If that way of thinking were to become further adopted, we would surely move in a positive direction. If the Board of Directors operates on this kind of understanding, I believe governance would improve by several notches. But the governance of the Board of Directors will not improve unless governance is also strengthened in terms of execution. I will continue to aim for that kind of management going forward.

“Companies that are making true efforts in raising governance standards have long-term promise.”

Akitsugu Era

