

Interview with Fumio Tateishi and Kazuhiko Toyama

Toward Effective Corporate Governance

Omron Corporation and Corporate Governance: A Path, Not a Destination

Fiscal 2014 was a year in which many public companies looked to corporate governance as a means to rebuild their earnings capacity. Following Japan's Corporate Governance Code, issued on June 1, 2015, we met with Mr. Fumio Tateishi, Chairman of the Board of Omron Corporation, and Mr. Kazuhiko Toyama, president and CEO of Industrial Growth Platform, Inc. and outside member of the Omron Board of Directors to discuss Omron's corporate governance.

Kazuhiko Toyama
President and CEO,
Industrial Growth Platform, Inc.
Outside Director, Omron Corporation

Fumio Tateishi
Chairman of the Board,
Omron Corporation

— Can you give us a brief history of corporate governance at Omron Corporation?

Tateishi: We can trace the roots of governance at Omron back to 1996. At the time, our chairman Nobuo Tateishi was a member of the management advisory group of the Organization for Economic Cooperation and Development (OECD). His service with the OECD instilled in him the importance of corporate governance, and under his guidance Omron established the Personnel Advisory Committee in 1996. In 1999, we reduced the number of Omron board directors from 30 to 7, and adopted an executive officer system at the same time. This was the key turning point for Omron as a company. Since then, we embarked on a path of improved corporate governance. In 2001 we brought in our first outside director, and in 2003 we separated the positions of chairman of the board and CEO. We also established the Compensation Advisory Committee at that time, chaired by an outside director. In 2006, we set up the CEO Selection

Advisory Committee, also chaired by an outside director. And, in 2008, we established the Corporate Governance Committee, which is a committee that consists entirely of outside directors as members. Beginning fiscal 2014, we adopted medium-term performance bonuses. The past 20 years has truly been a path and process of Omron Corporation^{*1} building a better and stronger corporate compliance structure. The Omron you see today is the cumulative result of our steady efforts to enhance long-term corporate value over the years.

^{*1} See P. 65 for more.

— Toyama-san, as a member of the Council of Experts Concerning the Corporate Governance Code, and Tateishi-san, from your perspective as a corporate leader, what do you believe is the significance of the new Japan's Corporate Governance Code to Japan's public companies?

Toyama: Governance is a means to improving a

company, and not an end objective in itself. The first consideration of corporate management is the long-term growth of their company. The Corporate Governance Code offers one model for this, but it isn't necessarily something that needs to be implemented verbatim. At the end of the day, it's the responsibility of the company to build corporate value. As long as they can do that—with or without the Code—then they have accomplished their duty. They don't necessarily have to comply with the Code as long as they can explain what they do. In the same vein, corporate governance isn't a silver bullet. It's something you need to address honestly and work on over the course of time.

Tateishi: As I mentioned earlier, Omron Corporation has been engaged in a 20-year process of improving governance to build sustained corporate value. We saw the publication of the Corporate Governance Code as another chance for us to examine and systematize our own corporate governance initiatives, and we view the Code as a helpful guide in this process. The system we formalized is what we published on June 24 in the

Omron Corporate Governance Policies^{*2}. Every member of our board of directors participated in the deliberations and decisions leading up to the announcement of this policy. It provided us an opportunity to stand before our shareholders and stakeholders and proudly present our beliefs about corporate governance at Omron.

^{*2} See P. 65 for more.

Toyama: I don't think Omron could have hoped for better timing between revising the Omron Principles and introducing the Corporate Governance Policies.

Tateishi: We officially announced the revised the Omron Principles in May 2015. As you say, it was very good timing. At the time that President Yamada took over in 2011, we all felt that our employees had come to interpret our corporate philosophy as simply doing things correctly. We needed more awareness of creating solutions to social needs and challenging ourselves, which lie at the roots of the foundation of Omron as a company. So, in January 2014, the board of directors began discussing how to best go about improving

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Fumio Tateishi

sustainable value at Omron. We identified several issues, one of which was the conclusion that a solely defensive approach to governance was insufficient. We needed to employ a more active style of governance and create even higher levels of corporate value if we were to accomplish all of the goals of our long-term vision (VG2020). Based on these discussions, we embarked on a major project to revise the Omron Principles, determined to embrace the Omron Principles in our business to a level we had never fully achieved in the past. Just by coincidence, the Japanese government began talking about establishing a

Japan's Corporate Governance Code at about that same time. I remember thinking what a stroke of good timing it was.

— As the chairman of the board of directors and as an outside director, what do you focus on in enhancing sustainable corporate value? What issues do you see ahead for Omron from your individual perspectives?

Tateishi: As chairman of the board of directors, I believe that we must use the Omron Principles to connect the entire process from oversight and supervision all the way through to business execution, speeding up decision making to enhance corporate value. As our internal and external environment changes, I understand that governance is not something that is ever “finished.” We need to humbly keep working to move forward and build higher levels of value. I believe that one of the issues Omron is facing is the globalization and diversification of our board of directors. As the first step, we were privileged to welcome Kuniko Nishikawa as the first-ever female outside director at Omron in 2015. Obviously, we will continue to address this issue in more ways in the future.

Toyama: In terms of oversight and supervision, my role is almost entirely in the sphere of monitoring. However, since Omron is a company with an audit and supervisory board, I am involved in several important areas that affect the company's continuation as a corporation. Other than that, I essentially keep out of the business of executive decision-making. The CEO Selection Advisory Committee, where I serve as the chair, makes decisions about the current CEO's performance as a manager, as well as about appropriate future candidates for the CEO position. I have the chance to form my own impressions of different individuals through interaction with candidates outside formal board meetings. I had no reservations when we selected Yamada-san as the next president of Omron. From my own personal dealings, I knew he was a

person blessed with generous talents and a well-suited personality. I do echo Tateishi-san in saying that board of director diversity is an issue for Omron. People of different genders and nationalities bring different opinions to the debate, which I believe can only lead to a new, heightened awareness. Diversity among executive officers is another challenge. A lack of diversity on the board and among executive officers results in less-constructive discussions than could be generated otherwise. Diversity sharpens deliberations and decisions. I am sure that people of different nationalities, cultures, and histories interpret the Omron Principles in different ways. Reconciling and understanding different social values creates a certain kind of conflict that results in better ideas. If Omron Corporation is to grow as a global company, diversity on the board and among executives is of particular importance.

— Please tell us more about your thoughts on Omron's sustained long-term growth.

Tateishi: No matter how much time and effort you put into writing guidelines and policies, they won't function in practice without an essential underlying spirit or soul. The Omron Principles are the heart and soul of Omron as a company. As we put true spirit into policies and rules, we increase our value as a corporation. This is what makes Omron the company that it is, and I believe this is one of our unique strengths.

Toyama: It's the management structure, decisions, and activities as a company that determine whether corporate policies are just for show or whether they are truly a part of the company. Rules for the sake of rules, true intent, formalities, and reality all have a reciprocal relationship. Decisions that are mostly formality combined with integrity of action can create a cycle that ties directly to a company's ability to earn. This cycle results in policies and principles that ultimately become a true part of the company. I think this cycle is working very effectively at Omron today. But companies should always innovate and reform,

constantly monitoring this cycle. In my opinion, Omron has been innovating and reforming in terms of corporate governance for nearly 20 years. The ability to constantly evolve is perhaps the most valuable intangible asset a company has. We tend to let down our guard when the money is rolling in, but companies that relax when things are going well will inevitably backslide.

Tateishi: Omron will continue to focus on enhancing corporate value looking toward our 100th anniversary and well beyond. We will continue to work hard to earn the ongoing support and trust of our shareholders and other stakeholders.

Kazuhiko Toyama



“Diversity in management is one of Omron's challenges”