OMRON’s Ever-Evolving, Unique Initiatives toward Improving the Effectiveness of the Board of Directors

How would you view OMRON’s initiatives to improve the effectiveness of the Board of Directors?

Tateishi: OMRON has taken a unique approach to enhancing oversight functions of the Board over 25 years. To further strengthen the functions, in 2015, we launched the initiative of “evaluating the effectiveness of the Board of Directors” conducted by the Corporate Governance Committee comprising only Outside Directors and Outside Audit & Supervisory Board Members. The perspectives of Outside Executives who are also members of the Board of Directors ensure that evaluations are not only objective but also effective. I believe this system works more effectively for OMRON than evaluations by third parties.

Kobayashi: It is very important to evaluate how much a board of directors is fulfilling its expected responsibilities. That’s why many listed companies have evaluated their effectiveness as is also required by Japan’s Corporate Governance Code. In many companies, a board of directors or a third party takes the lead in such evaluations. On the other hand, OMRON’s initiative, which allows a committee comprising only Outside Directors and Outside Audit & Supervisory Members to perform evaluations, is very unique from the perspectives of both objectivity and effectiveness, as Mr. Tateishi pointed out.
Tateishi: The Board discusses and determines the operational policy and focus themes for the upcoming year based on the evaluation results by the Committee. We have continued to improve the effectiveness of the Board of Directors through these two mechanisms: evaluations by the Corporate Governance Committee, and the determination of the operational policy and focus themes by the Board of Directors.

How to Improve the Effectiveness of the Board of Directors

— What specific measures has OMRON taken to increase the effectiveness?

Kobayashi: It is noteworthy that evaluations by the Committee have improved year by year. Specifically, OMRON’s Integrated Report increased the number of pages describing its initiatives to improve the effectiveness from one and a half in 2016 to five in 2020. In addition, the Board identified the current issues after analyzing discussions on the focus themes, and shared them with stakeholders in the Integrated Report 2021. The Committee has rated the Board as highly effective for its efforts to solve the issues recognized through such discussions. The Committee sometimes judges the Board from a strict perspective and requires it to take remedial measures, but the Board humbly listens to the Committee and seriously addresses the issues. As the Committee chairman, I have a real feeling that the Board is a place for in-depth discussions.

Tateishi: The Board determines the operational policy and focus themes based on the results of evaluations by the Committee. As a result of our efforts to enhance the Board’s effectiveness every year, its functions as a monitoring board have improved, while the ratio of discussions on medium- and long-term issues increased to 70%. I expect that by sharing medium- and long-term issues raised by the Board as an oversight function with Executive Officers led by President and CEO, the quality of management and the speed of decision-making process will increase more than ever.

Kobayashi: The Committee assesses the Board based on questionnaire-style self-evaluations by Directors and Audit & Supervisory Board Members. The self-evaluations, formerly a once-a-year requirement, have been performed immediately following each Board meeting since fiscal 2019. In addition, since fiscal 2021, Outside Executives have conducted reviews of Board meetings right after their closing. This immediate review allows us to share our afterthoughts and opinions unuttered during the meeting and encourages us to lead deeper and better discussions at future meetings. As a result, we can have more in-depth discussions in the evaluations at the end of the fiscal year, which I believe leads to improved evaluation content. OMRON’s Outside Directors and Audit & Supervisory Board Members are very unique for their wide variety of experience, careers, and insights. We can say that the effectiveness of the Board of Directors has been improved by these members who can speak out without restraint or conjecture.

Tateishi: When it comes to the diversity required for a board of directors, OMRON has an extremely diverse group of directors with a wide variety of experience and expertise. All of them are socially-conscious and ready to discuss strategies for the future. The effectiveness of the Board has steadily improved through free and open-minded discussions, various initiatives for effectiveness evaluations, and the evaluations-based decision-making process for operational policies and focus themes for the following year.

Focus Themes for Improving Corporate Value

— Could you tell us about how the Board of Directors determined its focus themes for fiscal 2021?

Tateishi: In the first theme of “completion of the next long-term vision and determination of the next medium-term management plan,” we attach more importance to completing the long-term vision. OMRON formulated its first long-term vision in 1991, and this will be the fourth one. While a long-term vision is becoming increasingly important in this era of uncertainty, there aren’t many companies that have been working on a long-term vision over 30 years. OMRON is characterized by its ever-evolving approach to formulating a long-term vision. In
addition to the conventional forecasting method envisioning the future starting from the present, OMRON also adopted a backcasting approach that allows us to start with defining what a society should be, and then create a roadmap to the ideal future. By using these approaches, designed to identify necessary factors to fill the gaps between ideals and reality, we can discuss how to reach the goal. In preparation for formulating the next long-term vision, the Board presented executives with five points of view for their supervising operations, including responses to the new normal era post COVID. This is exactly what the “new OMRON” should be in the post-COVID era. I believe it is also important for the Board to show this course of direction to executives.

Kobayashi: The biggest challenge in realizing the long-term vision is probably human resources. We need to create a roadmap by actively adopting various external insights, including those from the outside directors and open innovation. OMRON is developing human resources who can play a leading role in fulfilling the vision. However, unlike other management resources, we can’t utilize human resources as they are. As competition for talents is intensifying in the face of a declining population, we need to formulate a long-term plan and make an investment in order to attract and develop talent from all over the world.

Tateishi: I completely agree. The kind of human resources required for realizing the ideal society in 2030 or even further in the future is surely different from those needed today. I think it is the responsibility of the Board to not only actively discuss this challenge but also monitor whether the human resources strategy is being executed appropriately.

Kobayashi: When I look at OMRON as an Outside Director, I actually feel that a culture of challenging something new has been steadily instilled throughout the organization. I think employees’ enthusiasm for TOGA is a successful example. Their passionate and statements such as “Yes, we can” and “nothing impossible” always remind me the need for the Board to engage in discussions that respond to this.

Board of Directors Operational Policy and Focus Themes for Fiscal 2021

Board of Directors Operational Policy for Fiscal 2021

To enable the OMRON Group to achieve a drastic increase in corporate value over the next 10 years, the Board of Directors will exercise its oversight functions in a multifaceted manner and from the short-term and medium- to long-term perspectives.

Focus Themes

- Completion of the next long-term vision and determination of the next medium-term management plan
  - Points to be supervised
    - Response to the new normal era post COVID
    - Initiatives for key sustainability issues
    - Transformation of business model and acceleration of innovation
    - Reform of human resources management
    - Strengthening resilience
- Response to increasing geopolitical risks
- Checking the progress of establishing a companywide IT system
**Tateishi:** As the second focus theme, we designated “response to increasing geopolitical risks,” as was done in fiscal 2020. Currently, there are many conflicts all over the world, triggered by environmental problems, climate change, human rights, and other issues. We need to not only manage geopolitical risks to avoid possible impacts on our business performance but also to see the risks as opportunities to solve increasingly serious social issues. We require executives to contribute to creating a better society by emphasizing respect for all, one of our important values declared in the OMRON Principles.

**Kobayashi:** As you mentioned, we need two perspectives: how to enhance our resilience to any changes to persistently carry on our business even in a state of crisis, and how to negotiate new challenges of the post-COVID era to move on to the next stage of growth. We also need to steadily make progress in the third focus theme, “checking the progress of establishing a companywide IT system.” I believe that it is essential to raise the overall level of our IT system by one level or two with the aim of speeding up the decision-making process and implementing resilient, lean, and effective management on a global scale.

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**A Virtuous Cycle Brought by Practice of OMRON Principles and Promotion of Sustainability**

—— The revised Corporate Governance Code requires companies to proactively address sustainability issues and appropriately disclose their initiatives. Could you tell us about OMRON’s sustainability initiatives?

**Tateishi:** Since its foundation, OMRON has operated under the principle of contributing to future social development through its business. Prior to the revision of Japan’s Corporate Governance Code, we already had set 11 sustainability goals based on the OMRON Sustainability Policy formulated in 2017, and promoted our own initiatives. As of 2017, we incorporated the sustainability goals into our medium-term management plan because we were in the middle of our long-term vision. This time, we set the sustainability goals in the new long-term vision from the beginning.

**Kobayashi:** While most companies advocate sustainability nowadays, there are differences in their initiatives. Under these circumstances, OMRON has been committed to integrating sustainability into its management in order to realize the sustainable enhancement of corporate value. I’m confident that these efforts will have a positive impact on society. Because OMRON cannot solve all social issues by itself, it is also important for OMRON to actively convey its messages to society as an opinion leader.

**Tateishi:** OMRON emphasizes the importance of innovation driven by social needs, so it is no exaggeration to say that the implementation of corporate principles and promotion of sustainability are synonymous. While heightening non-financial value by promoting sustainability, we will also increase our financial value by solving social issues thorough our business. I believe that we can create a virtuous cycle for the further enhancement of corporate value by pursuing these two goals. The Board of Directors will strive to continue to improve its effectiveness in order to fulfill the mission toward the sustainable enhancement of corporate value.