Enabling the Effectiveness of the Board of Directors to Support Increasingly Sophisticated and Complex Management

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SF2030 Long-term Vision and SF 1st Stage Medium-term Management Plan Reflect the Results of Discussion

— Through the “initiatives to improve the effectiveness of the Board of Directors,” which have been established as a mechanism, in fiscal 2021 OMRON worked on three focus themes: “completion of the next long-term vision and determination of the next medium-term management plan,” “response to increasing geopolitical risks,” and “checking the progress of establishing a companywide IT system.” As regards “completion of the next long-term vision and determination of the next medium-term management plan,” what did discussion center on?

Tateishi: We placed particular emphasis on “completion of the next long-term vision and determination of the net medium-term management plan.” We had been working on formulation of a long-term vision for two years, as well as engaging in vigorous insightful discussion on the medium-term management plan, backcasting from 2030.

The Board of Directors set a new course by resolving the key sustainability issues and medium-to long-term targets of the long-term vision. By clarifying the Board of Directors’ responsibilities for sustainability, we were able to reiterate to OMRON’s stakeholders our commitment to “resolving social issues through its businesses.”

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
1) 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 the business model and acceleration of innovation
   ● Reform of human resources management
   ● Strengthening resilience
2) Response to increasing geopolitical risks
3) Checking the progress of establishing a companywide IT system
OMRON aims to achieve a drastic increase in its corporate value in the next decade. We had intensive discussions on “human resources,” “diversity and inclusion (D&I),” and “the environment,” which are indispensable for realizing this aim. Of these, the biggest issue is human resources to lead growth. Our Outside Directors and Outside Audit & Supervisory Board Members have pointed out the need to utilize human resources for business growth and the evolution of the business model. Our discussions covered not only education and training of employees and mid-career hiring, but also various other possibilities, such as the use of external human resources through M&A and business alliances. As for D&I, I believe that new ideas will bubble to the surface as diverse values interact. We should not just pursue quantitative targets, such as the ratio of female managers. Having more female managers will bring about qualitative changes. For example, addition of a new perspective will stimulate discussion, leading to innovation and renewal of the corporate culture. In our discussions, we tackled these issues in depth. It is the responsibility of the Board of Directors to oversee the effectiveness of D&I and to further evolve OMRON’s initiatives in this regard. On the environment, clearly both environmental protection and corporate growth should be achieved. For reduction of greenhouse gas emissions, in addition to Scope 1 and 2 emissions from OMRON’s own activities, we have had a number of discussions on how best to promote reduction of Scope 3 Category 11 emissions, which are emissions from the use of OMRON’s products and services sold, accounting for 80% of the total emissions of the OMRON Group.

Kamigama: As for the long-term vision, conceptualizing OMRON’s ideal configuration in 2030 and beyond, and then incorporating it in the medium-term management plan by backcasting, was no simple matter and we had to be creative to accomplish this challenging task. The Outside Directors and Outside Audit & Supervisory Board Members were able to make proposals to the Board of Directors from diverse perspectives based on their own experience and knowledge. OMRON’s inclusion of non-financial targets in its medium-term management plan is noteworthy. And OMRON’s actual integration of business growth and promotion of sustainability is truly impressive. Nowadays, there is hardly a company that does not advocate sustainability, but I think OMRON is a rare example of a company that integrates sustainability into the main stream of its business, rather than treating it as an obligation or a social contribution.

Agile Response to Geopolitical Risks

What were the main points of discussion

Kamigama: What were the main points of discussion on the second focus theme, “response to increasing geopolitical risks”?

Tateishi: Long before COVID-19 appeared on the scene, OMRON was strengthening integrated risk management so as to adapt to changes in the environment and promptly tackle problems through concerted efforts of the management team and employees. These accumulated efforts have helped us respond agilely to the growing geopolitical risks of recent years. Immediately after Russian invasion of Ukraine, we raised geopolitical risk to the highest rank on the list of material risks. Specifically, we examined the impact of the worsening Russia-Ukraine situation on our business in terms of law and regulation, tariffs, competition, restrictions likely to be imposed by various countries, and prospects. Based on this analysis, the Board of Directors discussed how to minimize the impact. We are continuously monitoring the implementation of measures and changes in the international situation. Geopolitical risk is inseparable from our business and regional headquarters, and we have to think about it. We had in-depth discussion at the Board of Directors’ meetings on the need to increase the speed of management by enhancing flexibility of our global operations, for example by promoting greater delegation of authority to overseas subsidiaries. Geopolitical risk is an important issue for every company, regardless of industry or region. At OMRON, having positioned “response to risks in an era of uncertainty” as a focus theme for fiscal 2022, the Board of Directors will continue to exercise its oversight functions regarding geopolitical risk.

Mr. Kamigama, how do you rate the achievements to date for the third focus theme, “checking the progress of establishing a companywide IT system”?

Kamigama: Given the transition of OMRON’s business from a focus on “products” to “services,” as well as the need to further strengthen integrated risk management mentioned by Chairman Tateishi, establishment of a corporate IT system is indispensable. The Board of Directors has been deliberating on this as a focus theme since fiscal 2019. Though good progress has been made so far, the big challenge lies ahead. I have observed a number of attempts by companies to introduce unified IT systems throughout their operations. Such projects tend not to proceed as initially planned both in terms of schedule and budget. But you must go on because in an increasingly uncertain and complex environment, you can’t run a business effectively
without a companywide IT system. It is understandable that employees engaged in businesses and operations closer to customers have reservations and anxieties about the implementation of a new companywide IT system. This is because they may have to review their existing workflow or are concerned that they may no longer be able to meticulously respond to customers. However, allowing exceptions and customization will compromise operational efficiency by impeding introduction of a unified companywide IT system. So, the exercise of leadership by top management will be crucially important from now on. That is why I have urged CEO Yamada to rally the workforce in this endeavor and proceed with determination.

OMRON’s first attempt to establish a companywide IT system is a major project that will span 10 years. Therefore, in a new initiative, the Board of Directors has established an independent third-party evaluation team consisting of experts and experienced professionals to monitor the progress and other aspects of the project. We expect this mechanism to ensure objectivity will help complete the project on schedule.

New Possibilities Expanded by Capital and Business Alliance with JMDC

What opinions were expressed at meetings of the Board of Directors about the capital and business alliance with JMDC Inc.?

Tateishi: This was OMRON’s largest investment project to date and the Board of Directors held wide-ranging discussions on the matter. For example, we considered the possibility of creating a personalized solution for the prevention of serious illness by combining JMDC’s medical data, such as health insurance claims and records of medical examinations, with blood pressure and vital data that OMRON possesses, in order to achieve our goal of extending healthy life expectancy. Naturally, we discussed the appropriate acquisition price of common stock in terms of both return and risk, taking into consideration the impairment risk after the acquisition of common stock. As collaborative business creation with JMDC is about to get into full swing, I believe it is essential to learn from our partner and emulate the best aspects of its organizational culture. I made a recommendation along these lines at a meeting of the Board. The Outside Directors suggested that OMRON should establish a project team consisting of people from both companies, not only at the executive level but also at the front line. Having a joint team should accelerate discussions and enable OMRON and JMDC to create new businesses offering value that cannot be realized by either company acting alone.

Kamigama: In my view, the biggest difference between OMRON and JMDC concern organizational culture and human resources. OMRON is diligent yet somewhat rigid, and one cannot deny the impression that it is culturally rather conservative. On the other hand, JMDC is freewheeling and open-minded, and the individuality and opinions of each employee seem to be respected. I think it is evident that the tempo of management is also quite different between the two companies. What we must never do is to try to shoehorn our partner into OMRON’s way of doing things. As Chairman Tateishi said, it is important to respect one’s partner, diligently learn everything that can be learned from the partner, and apply it. This approach will lead to true synergy. All the Outside Executives, that is, Outside Directors and Outside Audit & Supervisory Board Members, were at one on this point. The setting up of a carefully selected team drawn from both companies, consisting of people who are flexible in their thinking and have a positive mindset, and engaging in open discussions is the best way forward. It will lead to new data-driven businesses offering essential value, not only in the Healthcare Business but also in OMRON’s mainstay Industrial Automation Business.

How would you rate the skills matrix of OMRON’s Board of Directors?

Tateishi: OMRON has ensured the diversity of its Board of Directors, which is composed of individuals who possess the knowledge, expertise, and experience necessary to realize our long-term vision and medium-term management plan. Nevertheless, in order to transform business models and oversee new businesses, the Board of Directors must also have knowledge and expertise
that are different from what were required in the past. Speaking from first-hand experience, the tempo of management decision-making increased sharply after the outbreak of the COVID-19 pandemic. Many social issues that were expected to emerge in the future have suddenly confronted us as pressing issues during the pandemic. Remote medical care without face-to-face contact is a typical example. In these circumstances, a rich and varied set of skills is needed for swift managerial decision-making and decisions must be thoroughly implemented in business operations. I believe it is important to clarify the skills needed to realize strategies through backcasting and to configure the Board of Directors accordingly.

Kamigama: I think that OMRON’s Board of Directors is well-balanced and diverse in its composition but it definitely needs to evolve as we look to the future. As OMRON promoted digital transformation and the transition to a business offering essential value, the need for expertise in IT, AI, and cybersecurity is certain to increase. In nominating Directors, we need to take this into account.

— Mr. Kamigama, since your appointment as Outside Director in 2017, have you noticed any change in the characteristics and strengths of OMRON’s Board of Directors?

Kamigama: The atmosphere of the Board of Directors has remained unchanged. The atmosphere in which our discussions are held is very relaxed. I also feel that not only Outside Directors but also Outside Audit & Supervisory Board Members state their opinions more frequently than at other companies. This is supported by succinct information materials prepared for Board of Directors meetings. So, we are able to have focused discussions at Board of Directors meetings and resolve matters. In addition, in response to a request by the Corporate Governance Committee based on evaluation of the Board of Directors’ effectiveness for fiscal 2021, Internal Directors and Internal Audit & Supervisory Board Members have become more proactive in stating their opinions, resulting in more vibrant discussion. This is indicative of how the Board of Directors is evolving. Exchanges of ideas and opinions between Internal Executives and Outside Executives, that is, Outside Directors and Outside Audit & Supervisory Board Members, are enhancing Outside Executives’ understanding, enabling them to engage in deeper discussion. Another characteristic is that every Board of Directors meeting is shortly followed by a review to evaluate its effectiveness. This ensures prompt and accurate feedback, which is indispensable for the evolution of the Board of Directors.

— What are OMRON’s issues?

Kamigama: OMRON should make The OMRON Global Awards (TOGA), an annual event, more practical in nature. The participants’ enthusiasm and their seemingly inexhaustible ability to generate ideas impress me. These attributes are among OMRON’s strengths. On the other hand, the ideas presented at TOGA have yet to become businesses of reasonable scale. There are several ideas with great potential. I would like to see OMRON develop the next pillar of its business from among the solutions proposed at TOGA.

— What is the operational policy of the Board of Directors for fiscal 2022?

Tateishi: The Corporate Governance Committee judged that the Board of Directors exercised its oversight functions in a multifaceted manner and from the short-term and medium- to long-term perspectives in fiscal 2021. In fiscal 2022, centering on three focus themes, namely “monitoring the progress of the long-term vision and the medium-term management plan,” “response to risks in an era of uncertainty,” and “checking the progress of establishing a companywide IT system,” the Board of Directors will continue exercising its oversight functions and implementing the plan-do-check-act (PDCA) cycle so as to contribute to the realization of sustainable enhancement of corporate value.

— Finally, why did OMRON include the OMRON Principles in its Articles of Incorporation?

Tateishi: It is rare for a company to include its corporate principles in its articles of incorporation. We took this step in order to make OMRON’s resolve widely known. By declaring both within the OMRON Group and to external parties that the basis of OMRON’s management, the very core of our approach, remains unchanged, regardless of changes in the environment, I believe that OMRON’s initiatives to “resolve social issues through its businesses” will gain greater impetus.