

Interview with the Outside Directors: One Year into the New Management Structure—What Kind of Governance Can Overcome Challenges?



Leading Outside Director
Chairman of the CEO Selection Advisory Committee
Chairman of the Corporate Governance Committee
Member of the Personnel Advisory Committee
Member of the Compensation Advisory Committee

Takehiro Kamigama



Outside Director
Chairman of the Personnel Advisory Committee
Member of the CEO Selection Advisory Committee
Member of the Compensation Advisory Committee
Member of the Corporate Governance Committee

Izumi Kobayashi



Outside Director
Chairman of the Compensation Advisory Committee
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Yoshihisa Suzuki

The Board of Directors' Responsibilities and Reflections on Failing to Detect Changes in the Business Environment

— How do the Outside Directors view the significant underperformance against the initial plan for FY23? Please share your reflections as members of the board and thoughts on areas for improvement.

Kamigama: Honestly, when I received the report, I was shocked by how far things had suddenly deteriorated. It's my deep regret that, had we analyzed the indicators more effectively, we could have caught it sooner. The board should have been more proactive and engaged in deeper discussions about the factors that ultimately led to the delay in responding to the changes in conditions.

Kobayashi: Looking back, one major point of reflection is that we didn't take action to address the overly concentrated portfolio. The primary factor behind the underperformance on this occasion was the economic slowdown in China, but the management team had been concerned about our dependence on China for some time. At that point, we were in a position to insist on the development of an action plan to adjust our strategy. Portfolio imbalances are always going to occur, but we should have conducted a thorough risk analysis based on multiple scenarios. I have to say that OMRON is currently weak when it comes to building a portfolio that prepares for worst-case scenarios.

Suzuki: I had also stressed the risks of relying on China since I became an Outside Director, but I regret not pushing for concrete action sooner. For example, if we had expanded

business in North America, we could have diversified the risk, but we never took the discussions far enough to implement concrete measures. Surface-level discussions ultimately don't accomplish anything. This lowered forecast has been a valuable lesson for us.

Kobayashi: The portfolio should also be analyzed from multiple perspectives, including business domains and regions. There's no such thing as permanence in business. This has served as a reminder that we must all stay mindful of the inherent risks that come with overconcentration.

Suzuki: We also need to consider the fact that there were two lowered forecasts. This indicates that the issues were not identified after the first lowered forecast. In management, being unable to identify issues is extremely dangerous. So why were we unable to identify them in this case? Since the supply chain was involved, re-evaluating our business model and processes will likely be a topic for discussion moving forward. On the other hand, we should acknowledge President Tsujinaga's decision to cut 2,000 jobs during a difficult time in his first year. There may have been other decisions that could have been made earlier, but identifying the right time to act requires management instinct that comes only with experience. I hope the executive team can develop that kind of instinct through this experience.

Deepened Communication under a New Management Team

— What are your views of the current executive team led by President Tsujinaga, who has been navigating through such a challenging business environment?

Kamigama: OMRON has always been known for its open internal communication, but I feel it has improved even further. President Tsujinaga frequently visits employees on the field and speaks to everyone without favoritism. Communication between the board and the executive team has also improved. In particular, in FY23, new opportunities such as “off-site meetings” were introduced for the management team to have more casual discussions outside of the regular board meetings. Through such initiatives, we have been able to have open and candid exchanges with the new Business Companies heads (BC heads) over the past year.

I feel that sharing concerns and topics for discussion has become much smoother. It is as though President Tsujinaga’s personality is beginning to shine through in a positive way.

Kobayashi: The challenges faced by the BC heads become much clearer when we have open and candid conversations. In particular, in building future business models, they are likely to face many challenges precisely because of their fresh perspectives. If they communicate those challenges directly to us, as Outside Directors, we can offer more tailored advice and support. The fact that we now have an environment where we can openly share concerns about challenges is a big step forward.

Suzuki: Stakeholders had high expectations for President Tsujinaga when he took up his post, given his contributions to the growth of our core business, the Industrial

Automation Business (IAB). However, after taking office, he faced the significant challenge of having to revise the earnings forecast downward twice. The challenge now is how to navigate this difficult situation, and the new management team, which brings together young talent, is actively exchanging ideas. The transition to a new management structure in FY23 was aimed at bringing in a new generation and driving OMRON’s further growth with young talent. As such, the management team’s calm and diligent approach in determining our next steps is commendable.

Further Enhancing the Board of Directors’ Effectiveness and Sharing Concerns about Challenges Internally and Externally

— What changes have you observed at board meeting discussions?

Kamigama: Looking back, I feel that the executive team’s reports at board meetings in the past were rather formal and standardized, often simply stating: “There are no particular issues.” Now, they come to us not only with requests for proposals on topics but also to share their challenges and concerns about reports, creating an atmosphere where we can engage in constructive, in-depth discussions.

Kobayashi: We’ve always had open exchanges of opinion, but there were times in the past when “perfect” answers had been prepared in advance, or when presentations were so polished that it was hard to see what the core issues were.

Suzuki: Before the change in leadership, the board meetings had a structured, orderly atmosphere, much like a

well-coordinated formation flight. The Chairman of the Board of Directors has now shifted from Mr. Tateishi to Mr. Yamada, along with President Tsujinaga, Mr. Yukumoto, and Mr. Tomita being newly appointed as Directors. With so many changes to the board members, it is only natural that there has been a change in atmosphere as well. The first year was a period for President Tsujinaga and the BC heads to develop their own style from the ground up, and I am looking forward to seeing how the board further evolves moving forward. Now, at a time when it’s more important than ever for Outside Directors to voice their honest opinions, I believe communication with President Tsujinaga, who is a great listener, will continue to grow even further.

Kobayashi: Corporate governance should be adaptable to changes in both society and the company. What makes OMRON’s current governance system so strong is that inside Directors openly report internal challenges, offering Outside Directors and Outside Audit & Supervisory Board Members new perspectives. New non-executive Directors like Mr. Yukumoto ask very direct questions during board meetings, and this atmosphere is quite unique compared to



other companies. It allows us, as Outside Directors, to understand internal matters, receive feedback, and ask questions from an independent standpoint. This can be seen as an effective system where internal and external parties complement each other's roles.

With the Continued Evolution of the Corporate Governance Committee, Discussions on our Medium- to Long-Term Vision have Now Begun

— Amid significant changes to the Board of Directors, the structure of the Corporate Governance Committee was also revised in FY23. What was the purpose behind this change?

Kamigama: The Corporate Governance Committee is responsible for discussing measures to continuously strengthen governance and enhance management transparency and fairness from a medium- to long-term perspective. In FY23, a non-executive inside Director was added to the committee. The main goal is to strengthen discussions on future governance by considering societal changes and our business vision moving forward.



Kobayashi: Up until then, the primary role of the Corporate Governance Committee had been to evaluate the effectiveness of the Board of Directors, led by Outside Directors and Outside Audit & Supervisory Board Members. However, to shift the committee's focus toward discussions on future governance, it is important to have people who understand the internal dynamics and changes in the business. Bringing in a non-executive inside Director was a natural progression.

> Fiscal 2024 Advisory Committee

Suzuki: When I first became an Outside Director, I saw OMRON as a company that excels in governance. However, there were certain functions whose roles and initiatives hadn't changed for years, and the Corporate Governance Committee was one of them. It was the recommendation from the Outside Audit & Supervisory Board Members that "conducting regular effectiveness evaluations alone is insufficient and this should be reviewed" which made me realize OMRON itself had entered a phase where restructuring its governance system was necessary.

— What kinds of discussions are happening among Corporate Governance Committee Members?

Kamigama: Lately, there have been active discussions about revising OMRON's traditional governance system, which aims to achieve a perfect score in every area. For example, it was suggested within the committee that, even if not everything is perfect and there are gaps in certain areas, as long as corporate value increases, we should pursue a governance approach that leverages OMRON's unique strengths. The reason is that if we don't focus on initiatives that capitalize on OMRON's distinctive strengths, we risk running short on resources.

Suzuki: Innovative initiatives like Management based on the OMRON Principles and ROIC management, which OMRON has championed, are now at a stage where they need to be re-evaluated and evolved in response to changing times. Even if the governance were perfect, the fact is that earnings declined in FY23. We must keep updating our management practices in general, including governance, to keep pace with the rapid changes in the world.

Kobayashi: It's time to move away from governance aimed solely at achieving a perfect score in compliance with the Corporate Governance Code. The primary purpose of corporate governance should be to enhance profitability and growth. We have now been acutely reminded of this fact. Perhaps OMRON, as a company that excels in governance, ought to be communicating this mindset to the wider world.

Accomplishing NEXT 2025 and Rebuilding the Cycle for Enhancing Corporate Value

— Under an evolved governance system, we will tackle the challenge of completing ongoing structural reforms while also pursuing medium- to long-term growth. How should the Board of Directors respond to this challenge? Could you say a few words about your plans moving forward?

Kamigama: The top priority for the board is to closely monitor the process of achieving a V-shaped recovery for the IAB. We will establish appropriate KPIs and create an environment where Outside Directors can regularly monitor the product and area portfolios. Of course, simply monitoring will not be enough. If performance does not improve, we must push strongly for corrective action.

Customers who leave do not come back so easily, so we need to thoroughly analyze our businesses in China, North America, Europe, Japan, and new markets to identify areas with growth potential. Each region presents both risks and opportunities, which is precisely why we also wish to strengthen our monitoring efforts.

Suzuki: Portfolio optimization is a key pillar of NEXT 2025, our structural reform program. In addition, we need to focus on optimizing both the size and capabilities of our workforce.

Kamigama: In particular, optimizing organizational capabilities following our workforce reductions will be a top priority. We need to boost productivity through the use of AI and secure talent more efficiently. What's important is not the number of people, but rather a system that focuses on mid-career recruitment of individuals with truly essential skills.

Kobayashi: If the goal of optimizing organizational capabilities is clear, this company-wide structural reform should work effectively. For example, as we transform the business structure, we may need to acquire new skills, particularly in the digital space. In an extreme case, if the structural reforms involved adjusting the workforce composition and headcount to maintain the capacity to develop or recruit such talent externally, I would find that reasonable. The organization must evolve to fully leverage new talent and nurture our businesses. It is only with such a broad, strategic plan in place that structural reforms can truly have meaning. What will be crucial moving forward is fostering an organizational culture that fully utilizes the abilities of new external talent and drives the enhancement of corporate value.

— What are the key considerations when outlining a growth strategy that looks beyond the structural reforms?

Kamigama: What benefits will emerge once the reforms are completed, and what new paths for growth will open up? The key is for the executive team to be identifying that from this stage onward. If we misjudge that, we could reach the end of the structural reforms only to realize that we took the wrong path. To avoid that, it is important to have a growth strategy where, even if the path is hazy at first, the outlook becomes clearer as the structural reforms progress.

Kobayashi: If we do not have the ambition to reach the top of the mountain, the way there will never reveal itself. Once you start climbing, you might find the path blocked by a landslide. In that case, it is important to adjust course flexibly. But if you lose sight of the summit, you will not be able to move forward any further. The important thing is for the management team to have a shared vision of what OMRON should look like as a company once the structural reforms are complete.

Suzuki: It is important not only to have a shared understanding of the challenges and the path forward but also the execution ability to see it through. From the start of his term, President Tsujinaga was emphasizing that OMRON's growth requires stronger execution. Mr. Yamanishi, as the BC President that directs the IAB, has also outlined a plan to start things over again with a customer-oriented approach. The key will be to not only set the direction but also to strengthen the execution ability to see it through.

Data Solution Business Enabling Sustainable Growth in Collaboration with JMDC Inc.

— Through its partnership with JMDC Inc., OMRON is steering itself toward transforming into a data solutions business. Could you share your thoughts on creating new business value beyond the structural reforms?

Kobayashi: A key responsibility of Outside Directors is to support the executive team in taking calculated risks. But those risks must be manageable. We need to thoroughly examine the strategy behind the risks that the executive team is planning to take. If the underlying assumptions, such as market trends or geopolitical risks, are misjudged, the outcomes will inevitably be wrong, and we may end up taking risks that we should not. It's our role as Outside Directors to objectively assess the validity of the overall strategy.

Kamigama: The transformation from product value to essential value (the combination of products and services) that we're pursuing with JMDC Inc. has been attempted in various industries, but not all have succeeded. That is





because it requires a strong customer base and solid business infrastructure. However, I believe that OMRON and JMDC Inc., by leveraging their respective expertise, can make this transition more quickly than others in terms of taking on the challenge of creating value through data utilization. The vast amounts of on-site data accumulated by the Healthcare Business, as well as the Social Systems, Solutions and Service Business, should prove powerful in this new venture. That said, since it will take time to generate a profit, we, as Outside Directors, will need to monitor the progress closely.

Suzuki: Even JMDC Inc., whose core business is data, has struggled to commercialize and monetize it as a solution, despite their ability to collect and process it. Since OMRON is also entering this challenging field, it is only natural that growth will take time, and we will need strong commitment and execution to move the business forward at a steady pace.

— Could you share your expectations for OMRON's new initiatives and future following the addition of JMDC Inc. to the Group?

Kamigama: JMDC Inc.'s entrepreneurial spirit is having a positive influence on OMRON. It would be interesting to create an environment going forward where OMRON can actually learn from JMDC Inc. by leveraging the differences in our cultures.

Suzuki: Synergies like that are created when opposites collide. Extending our current path will not lead to significant change. OMRON's culture needs to evolve. If the culture changes, I believe the potential for growth will increase dramatically.

Kamigama: A data utilization mindset within the Group is essential, starting with streamlining business operations. For example, when it comes to expanding overseas operations, if we continue to just send personnel from Japan each time and try to build from scratch, we will not be able to compete with local providers. A business model that leverages databases to operate remotely at pace would likely be in demand in markets like Europe and the U.S. as well.

Kobayashi: For example, our Medium-term Management Plan (SF 1st Stage) talks about "data-driven enterprise operations through DX." If Mr. Ishihara, who is Senior General Manager of Data Solution Business HQ, can take the lead and begin initiating action internally now, it could accelerate the entire Group's progress in this area. Data is meaningless if it is not used. We need to create an environment where everyone in our Group can utilize the various data that exist internally. I would like to see Mr. Ishihara's team, which can leverage the resources of JMDC Inc., take the lead in this.

Suzuki: It is also important for President Tsujinaga to send a message from the top to encourage the new team that Mr.

Ishihara has formed. We have both the immediate goal of completing the current structural reforms as well as the transformation of our business model, which is focused on medium- to long-term growth. A balance needs to be struck to ensure messaging from the top does not favor one goal over the other.

Kobayashi: It is a matter of the timeline. While our immediate focus is on re-strengthening the IAB and rebuilding our revenue and growth base, JMDC Inc.'s capabilities will be crucial for enhancing OMRON's corporate value over the next 10 years. That is the kind of message that needs to be communicated. Ultimately, prioritization is key. While there are countless tasks at hand, our resources are limited, so we need to change the way we think and act. Continuing with the old mindset will inevitably lead to inefficiencies. By eliminating unnecessary effort, even through small things like simplifying written material for the Board of Directors, we can reduce waste. We are now in a phase where each and every one of us needs to adopt that mindset. If our cultural reform proceeds in this way, new value can be created.



Kamigama: It is important to deepen the capital market's understanding of the future potential of our collaboration with JMDC Inc. I would also like us to strengthen our IR activities as well. If the new corporate value OMRON gains by incorporating JMDC Inc. into the Group is properly recognized by investors, it should allow us to take risks with greater confidence.

Kobayashi: That would have a positive effect on OMRON's share price as well. Recently, we've gradually begun to see more media coverage highlighting JMDC Inc.'s competitive edge in the health tech industry. I hope we can capitalize on this positive momentum and further intensify our IR activities.

Kamigama: While it is important to remember that both companies are independently listed, I think it would be beneficial for OMRON's and JMDC Inc.'s experienced IR teams to work together. I would also like to see enhanced information sharing within the Board of Directors.

In Challenging Times, Leaders Need to Lead and Listen to People

— What qualities do you think will be required of President Tsujinaga's leadership going forward?

Kamigama: What is great about President Tsujinaga is that he really listens to people. He is also leading by example with his customer-oriented approach. He puts a lot of effort into communicating with staff. He knows that by going directly to people rather than relying on intermediaries, he can hear frank and honest feedback. I hope he continues to take this approach, directly identifying areas where OMRON can improve and using that insight to guide his management decisions.

Kobayashi: By engaging in ongoing dialogue with a wide range of internal and external stakeholders, President Tsujinaga is enhancing his abilities as CEO, thoughtfully reflecting on the core of the business and working to convey that insight to those around him. I believe this is a strength

that only someone like President Tsujinaga, who values the opinions of others, can demonstrate.

Suzuki: I am confident that President Tsujinaga will transform OMRON as a whole into a stronger, more profitable company. He often talks about "reviving the entrepreneurial spirit from the company's founding days," but I believe OMRON will also need a strong, warrior-like mindset going forward. I would like to see us take a stronger, more aggressive approach to maximizing profits. President Tsujinaga is well-equipped with the leadership skills gained during his time at the IAB, and I am confident he will continue to leverage those skills to deliver even greater results.

