

Opinion Statement for the Council of Experts Concerning the Follow-up of
Japan's Stewardship Code and Japan's Corporate Governance Code
(for the 12th meeting)

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When companies truly reform the way to appoint CEO to achieve genuinely effective corporate governance, I believe that the case example of OMRON Corporation ("OMRON") offers valuable insight.

I'd like to share a case example with the Follow-up Council that OMRON has worked for quite a long time to make its consistent governance reform. And during such work, the entire company and the entire board shared a sense of purpose: to realize the corporate philosophy, and, as a result, sustainably increase corporate value. Despite such existential crises as the Lehman Shock, the company has continued to move forward unwaveringly.

All concerned parties shared a common perception that reforming the existing method of appointing CEO should be the core of the governance reform; and the executives and the board have seriously worked on it over time, without saying or doing anything merely for the sake of formality.

It is often questioned to what extent outside directors can properly judge qualifications and potentials of internal candidates for CEO. However, considering that:

- (1) the position of CEO is totally different from others in the management team, and qualifications of CEO are exceptionally difficult to attain;
 - (2) true difficulty of CEO's job cannot be understood without work experience as CEO;
and
 - (3) few people have an opportunity to appoint CEO,
- it is obviously useful that current CEO and outside directors (often including members with experience as CEO) work together for selecting and appointing a CEO successor, by devoting significant time and energy.

This is what I feel, from my experience of being deeply involved in appointing more

than 50 CEOs since I had joined the Industrial Revitalization Corporation of Japan. As human history shows, it is not always easy to perceive the quality of a candidate as the top management, merely based on observations within the company, when their relationship is nothing but a power relationship between superior and subordinate; or there may be a risk of various biases.

On the other hand, when several candidates, who are almost strangers, are introduced, it is understandable that outside directors cannot perceive their qualities merely through interviews. To ensure adequate nomination, it is essential for outside directors to identify potential candidates in advance, and monitor their job performance, their questions raised at board meetings, and personal characters over several years (at least 3 years).

Considering the challenging business environment of today as well as tougher job of CEO, there is an increased need for narrowing down CEO candidates and testing them by giving tough assignments while they are still young. This could be almost “a 10-year project”.

Then, outside directors are required to actively participate in developing, managing and executing 10-year procedures to select and develop CEO candidates and appoint CEO for performing such a responsible job as the appointment of CEO. This is indeed the most important job of nomination committees, or nomination advisory committees. In case outside directors are involved in the appointment of executives, the most important thing is the awareness of their responsibilities to “select potential candidates who may ultimately become CEO”.

With the above-mentioned objectives, at least in OMRON, the company and its president nomination committee consisting solely of non-executive directors (OMRON established a separate committee solely for nominating President, and I had assumed the position of the chairman of the committee until I retired) have seriously worked on them. Moreover, currently, the company must be implementing the procedures for appointing the next CEO over a longer period of time, devoting more energy.

In this age where various risk factors are increasing, global competition is intensifying, and companies need to cope with disruptive innovation and achieve growth by taking advantage of it, the appointment of CEO is the biggest and most important

once-a-decade strategic decision-making. I believe it is a matter of course to spend a vast amount of time and energy over a long period of time. This is the core of achieving genuinely effective corporate governance, and I strongly suggest that OMRON's trajectory should be shared by a larger number of listed companies as one of model cases.