# Interview with Outside Director

## NISHIKAWA Koichiro

### Biography

Apr 1970 Joined Hitachi, Ltd.
Aug 1995 Vice President of Hitachi America, Ltd.
Jun 2001 Managing Officer and General Manager of Global Business Development Division of Hitachi, Ltd.
Apr 2003 Manager of Business Development Division of the same company
Jun 2003 Executive Officer and Manager of Business Development Division of the same company
Jan 2006 Vice President and Executive Officer in charge of Business Development of the same company
Apr 2007 Senior Vice President and Executive Officer in charge of Business Development of the same company
Apr 2010 Senior Vice President and Executive Officer of Hitachi Cable, Ltd.
Apr 2012 Senior Advisor of Hitachi Research Institute
Mar 2014 Outside Director of Kyowa Hakko Kirin Co., Ltd.
May 2015 Audit & Supervisory Board Member of J. Front Retailing Co., Ltd. and Audit & Supervisory Board Member of Daimaru Matsuzakaya Department Stores Co. Ltd.
May 2017 Outside Director of J. Front Retailing Co., Ltd. (present)
May 2018 Director of Daimaru Matsuzakaya Department Stores Co. Ltd. (present)

### Governance reform is shifting from "container" to "content"

I have been involved in the governance of the Company as an Outside Audit & Supervisory Board Member of the then Company with an Audit & Supervisory Board since May 2015 and as an Outside Director of the Company with Three Committees (Nomination, Audit and Remuneration Committees) since May 2017.

I think a full-fledged governance reform started after the Governance Committee was created in July 2015. Executive Directors and Outside Directors had many discussions to establish a desirable governance system. The Governance Committee drew a proposal that the Company should transition to a Company with Three Committees (Nomination, Audit and Remuneration Committees) to realize the establishment of easy-to-understand governance system in consideration of what we aim at including strengthening of oversight function by separating oversight from execution, greater clarity of authority and responsibility in business execution and promotion of agile management, improvement of transparency and objectivity of management, and global investor perspectives. As a result, the Company transitioned to a Company with Three Committees (Nomination, Audit and Remuneration Committees) in May 2017. In January 2019, the Governance Committee developed into the Management Advisory Board where President seeks active advice from Outside Directors. Now that the "container" of governance has been created, it evolved into the one for discussions to improve "content" to be put in the container.

The Board of Directors clearly changed after the governance reform was launched. At the Board of Directors meetings in 2015, which I attended as an Audit & Supervisory Board Member, for example, the agenda concerning investment was explained and discussed only from a perspective of "whether or not it would generate profit." Speaking of financial statements, only P/L (statement of profit or loss) was discussed. At the recent Board of Directors meetings, we have mainly discussed what impact the invest would have on B/S (balance sheet), what effect it would have over the short, medium, and long terms to increase ROE, what relationship would be between risk and return, and furthermore, how it would be able to contribute to capital received from shareholders for actual management from shareholder perspectives to achieve an ROE of 8%. Thus our management changed to ROE management in which we can discuss based on B/S instead of focusing on P/L as in the past. I think this is a striking example showing management valuing shareholder perspectives is steadily taking root. Recent discussions on ICT strategy particularly impressed me. We took time to consider from various angles not only measures to implement the Medium-term Business Plan such as the measures for remarkably leaping e-commerce business but also a wide range of issues including "2025 Digital Cliff" involving DX (digital transformation) and appropriate allocation of roles and responsibilities between the head offices and operating divisions in the Group not only at the Board of Directors meetings but also preliminary hearing at the Audit Committee and executive sessions attended by only Outside Directors. I recognize they are included in the most important issues that will be continuously followed up by the Board of Directors.

Since 2015, monitoring, questionnaires, interviews, and quantitative and chronological analyses are provided by a third-party organization on a regular basis to evaluate the effectiveness of the Board of Directors. I reread the reports on the past four evaluations and found that concerning “agenda for the Board of Directors meetings,” “time allocation in discussions,” “how to evolve discussions including prior explanation about agenda” and “securing enough time for discussions, having exhaustive discussions and narrowing down problems concerning important matters to reach a decision,” we are highly evaluated because the framework is being completed.

On the other hand, particularly according to the latest evaluation, “there were few opinions from Outside Directors among those who attended discussions,” “the focus of agenda should be on the matters related to the progress of the Medium-term Business Plan, for example,” “the Audit Committee is not working enough” and “some Outside Directors are not satisfied with the speed of execution.” We have to keep them in mind. I would like to say the Board of Directors is evaluated that the framework is well in place and that the Board is at the phase of improving content to be put in the framework and the management capabilities and execution capabilities to produces results.

## Important role is to provide “common sense” to management

I think the common sense of Outside Director is important. For example, a person who became a member of the management team after accumulating experience in retail and department stores has extensive knowledge about and expertise in the industry but I am afraid his or her measure of management decision making was developed in a limited environment or to a limited extent. Common sense in Japan may not be common sense in the rest of the world. I myself have often encountered such cases in my past experience. In this sense, I think it is more important to share “common sense,” which means “common sense in the world,” than to share my management ability and management experience. In the 1980s, an industrial spy scandal happened. The FBI conducted an undercover investigation and some employees of Japanese electronics manufacturers were arrested. At that time, I was involved in resolving the scandal. A famous American corporate lawyer made a defense and finally it was resolved. The lawyer said, “The operation of your company lacks vitamin C.” I asked, “What do you mean by vitamin C?” and he answered, “It means common sense” and he added, “It lacks common sense to do business globally. So you caused such an incident.” He also said that we should invite Mr. Walter Cronkite, a renowned American journalist called “the most trusted man in America” for his liberal and patriotic stance, to join the board as an outside director. Looking back, it is just about to become a reality. By that I mean the majority of outside directors of the company I worked for before are foreigners though the Company has no foreign directors. What seemed unrealistic at that time has become a reality. From such experience, I am always aware of sharing “common sense” as an Outside Director.

We also need to pay attention to risk. By restating “risk” as “uncertainty,” the Company studies risk from both positive side and negative side in relation to management strategy. Generally speaking, risk is considered negative. Therefore, I thought I had better organize the wording and particularly should be careful to use the word “risk.” By restating “risk” as “uncertainty,” we can treat so-called “risk” as uncertainty in a negative sense and “opportunity” as uncertainty in a positive sense and I think we can better organize it than ever before. I often tell the Board of Directors that leaving the uncertain future or unforeseeable situation untouched is not management. If we leave it to fate, we need no managerial people. In this sense, it is important to cover risks in a negative sense and actively take chances in a positive sense. As all the management should do is how they make decisions for the uncertain future, it is important how many options we will have when implementing them. We need to analyze the probability and sensitivity of each option, implement the option that will maximize corporate value over the medium to long term, and prepare a backup plan. We also have to think in detail about how we will take it if it is a chance or how we will cover it if it is a negative risk. Needless to say, quantitative analysis is essential for this purpose.

Speaking from my past experience of serving as an outside director of a pharmaceutical company, investments at pharmaceutical companies are highly uncertain and large in scale, and if a wrong decision is made, they will face a financial crisis. For this reason, AI is used in a significant part of investment decision making. With the current backdrop of increased big data and simulation ability, I am beginning to think the era of “AI management” using them is just beginning. The Company, which mainly operates retail business, may need such ideas and thoughts. I was appointed as the Chairperson of the Audit Committee in the current fiscal year. Valuing provision of common sense to management including these ideas and thoughts, I will strive to audit not only illegal operations but also whether or not the Company conducts risk-return management with comprehensively balanced management decision making for the uncertain future to achieve the Medium-term Business Plan.