



## Independent Outside Director Akira Uchida

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### Using crisis awareness as springboard

As an Outside Director, I have had more opportunities to be involved with the Group through management supervision and consultation than with other companies. I believe the Group is making good use of the outside director system. They thoroughly provide a detailed briefing prior to the Board of Directors' meetings so that the Directors are sufficiently informed. Discussions in the meeting are lively and Outside Directors are allowed to offer their multifaceted opinions frankly. The management sincerely listen to our opinions and answer our questions. If they can't provide answers on the spot, they are sure to come back to us later with a report on actions taken. Thus, the PDCA cycle is properly working.

I think the management responded appropriately to the emergency situation that arose from the COVID-19 epidemic. They drastically cut business costs and investments. At the same time, they made timely investments in safety and security measures. They also acted swiftly to secure necessary funds from the shrinking financial market where sourcing of funds was getting more difficult. When they suspended the operation of physical retail outlets, they undertook new online initiatives. They also

set up an exclusive department to further drive the structural reform. I am sorry to say, however, that the new online initiatives and the structural reform should have started earlier, regardless of the COVID-19 situation.

I joined the Group in 2019 as an Outside Director. When I was conducting the audit of the management as a member of the Audit Committee, I pointed out their lack of crisis consciousness. Retailers, particularly department stores, usually expect to receive customers and make sales every day. Even during the 2008 financial crisis when they experienced a sales decrease of 10 or 20% from the previous year, it was the same. On the other hand, manufacturers always face various risks. Their products may be suddenly replaced by their competitor's products. In the 2008 crisis, many factories were completely shut down. The company I used to work for, a materials manufacturer, was placed in the upstream of a supply chain and constantly exposed to a considerable demand fluctuation. In the case of department stores, a decrease in demand is not abrupt enough to generate a sense of crisis among the management and employees. They are like frogs slowly boiled alive. Then, facing an emergency situation where they were forced to close the stores under the COVID-19 crisis, the management and employees alike shared crisis awareness.

Our future depends on whether everyone in the Group can become as one and come up with new ideas to overcome this crisis. I hope they will use the sense of crisis as a springboard to achieve a V-shaped recovery to return to where they were as quickly as possible.

A slow progress in the business portfolio reform also demonstrates the lack of crisis consciousness. In addition, there was a problem in management plan development. When the previous Medium-term Business Plan was made, the time span was set at five years. I thought it would be extremely difficult to complete a portfolio change within five years. I pointed out to the management that gradual improvement based on the existing situation could only bring about half-finished results. The management should develop a longer-term plan by first envisioning the desirable shape of the Group after 10 years, or an imaginary ideal portfolio, and then back casting from that point to create three-year plans and single-year budgets. They cannot realize transformational change unless they think hard about what should be done to reach their goal. This time, the new Medium-term Business Plan was developed from the discussion on the ideal shape of the Group after 10 years. To me, this is progress.

### Focusing on sustainability

Sustainability is an issue shared all over the world today. In particular, the global environment and human rights are the focus of attention. The U.S. rejoined the Paris Agreement and Japan finally announced its intention to address environmental concerns in earnest by setting an ambitious target. Investors are shifting their money to companies that contribute towards a sustainable society and companies have no choice but to accelerate their efforts in this arena. In our Group, the initiative to switch the energy source to 100% renewable has been achieved in the Daimaru Shinsaibashi store, but we need to move faster to expand it to all of our stores. In addition, we need to broaden our effort outside the Group and involve our customers in our supply chain covered under Scope 3. This is not an easy task. The key is that the Group takes strong leadership in planning and execution. It is also important to establish a good relationship with a well-known clothing company in the West that has introduced recycled materials for their clothes.

Human rights is also a big issue. Today,

companies are increasingly required to conduct human rights due diligence on a global scale to investigate any infringement within their supply chains. If a domestic retailer handles a certain product and a supply chain of that product is found to be involved in child labor or forced labor, the retailer is likely to be held accountable. Based on such risk, we need to grasp the human rights situation within our supply chain and make sure that there is no infringement.

Regarding diversity, our board has been further diversified with an increase of the number of female Directors to three. However, the proportion of female Directors on our board could be 50% or more if we consider the fact that the overwhelming majority of customers in the Department Store and SC are women. The same can be said about the Executive Officer and store manager. We might as well have a higher proportion of women in these positions if we are to conduct management, supervision, or consultation based on customers' viewpoints. In the long term, we may have a chance to build a new business model with more input from women. In the Group, the proportion of female employees is high. All we have to do is to develop their talent, promote them, and let them run the business. If we want to transform our business model, we need to change our way of thinking, and diversity is essential.

In accordance with the revision of the governance code, we are disclosing a skills matrix of Directors from this year. It shows a skills balance among Directors and is a way of providing guidance and explanation to investors and shareholders as to which direction the Group is heading. But in fact, what we need to achieve is more diversification within management. It will generate dynamism in daily operations and lead to the creation of a new business model. A homogenous organization functions well in a stable growth period, but it doesn't work in a period of change. My point is, a skills matrix for the Executive Officers should be created and disclosed in the same manner as Directors.

I understand that the Group had opened physical retail outlets outside Japan in the past with unsuccessful results. If they have already given up the ambition of overseas expansion because of these experiences, a growth opportunity will be lost forever. I would like to suggest that, in order to capture overseas demand through the internet or other means, the Group promotes diversity by bringing in

talent from outside Japan not only for the Director's position but also for management and manager levels. If we remain focused on the domestic market, demand will keep decreasing. As it is too difficult to come up with workable ideas only through a Japanese way of thinking, we will have to have input from people outside Japan who are specialized in developing solutions for change.

### Supervision and advice on the progress of the Medium-term Plan

During the course of medium-term plan discussions, we had a meaningful dialogue on where we should be after 10 years. We also talked about substantially expanding our finance business. Including such topics, I enjoyed the candid dialogue. We must take risks in pursuing our goal and there are three key things we must always remember: The first is to make sure we have substantial management resource, or a special weapon; the second is to find out if society is expecting us to take such action and to examine if our action leads to the solution of any social issues; and, the third is whether we are truly determined to carry it out. Only when these three elements are in place we can start to pursue our goal to become what we should be. The things we need to discuss are, for example, how to fill a considerable gap between what we are today and what we should be, or what we need to be doing in the next three years, including M&A, bringing in new talent, or forming an alliance. A structural reform with a short-term mindset will not receive employees' support. It is critical to show them in the beginning what we will be in 10 years and then explain what we need to be doing now to make it happen.

Through the discussions on the desirable shape of the Group after 10 years, we are beginning to understand what role we should play as a holding company. In the new Medium-term Business Plan, we have introduced a cross-organizational strategy. Previously, a medium-term plan was based on vertical business strategies. The addition of horizontal thinking helps us visualize group synergies and total optimization of the Group's strengths more specifically. Still, it is not clear to me which of the horizontal axes (committees) or the vertical axes (operating companies) is the main axis. A matrix management without a main axis tends to be dysfunctional. We need to watch carefully whether decisions will be made from the viewpoint of total optimization in actual operations.

The new Medium-term Business Plan was created by back casting from 2030. However, I

have the impression that the desirable image of the Group after 10 years is still only an extension of, or gradual improvements from, the current status. Imagine the world after 10 years. There is no doubt that the population of Japan will have decreased. The more critical thing to note, however, is that the digital natives will definitely become the mainstream consumers. These generations have no psychological barrier to the internet, and if they become the mainstream consumers in 10 years, we need to set a higher online sales target in the Real × Digital Strategy. For example, we can assume 50% from real-world sales and 50% from digital. Or, we may have to change our mindset drastically and create a hybrid SC where our customers can enjoy their shopping easily online as well as in the real world.

In this case, the claim made by the Department Store that they will "remove the limitation of time and place" becomes a very useful concept, applicable to not only the Japanese market but also overseas expansion. All we have to do is imagine the future when online sales from customers outside Japan surpasses inbound demand and to consider how to accomplish it. We should be able to envisage this kind of thing to happen in 10 years. It is estimated that Japan's population will fall below 100 million around 2050 and, in 2100, it will be about half of it. Growth will hit the ceiling if we continue to rely only on real-world revenues from domestic stores. We must have a serious discussion about what needs to be done to achieve fifty-fifty revenue split between the real world and digital. Inevitably, we need to anticipate the restructuring of our industry in the medium- to long term.

The most essential role of Outside Director is the supervision of Executive Officers from an independent viewpoint. This is my biggest responsibility. Particularly, Outside Directors should be involved with the matters related to governance that are the most important responsibilities for the Board of Directors, including the supervision, selection, and dismissal of the President and Representative Executive Officer and successor planning. Also, I am fully aware of additional expectations laid on us, which are suggestions, advice, or counsel for proactive governance. Outside Directors are free from any restraints from the past. I am always prepared to make objective and fair judgments and contribute to the enhancement of the Group's corporate value in the medium- to long term.