Further Deepen Discussions for Value Creation over the Medium to Long Term

Governance of the Company

SEKI Tadayuki
Chairperson of Audit Committee

KOIDE Hiroko
Nomination Committee Member

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We hold more than 30 meetings a year, including the Audit Committee meetings and the Audit Committee Member meetings. I think there are few companies that take such long time. The Audit Committee is also working closely with the audit & supervisory board members and internal audit divisions of subsidiaries and thus the Group as a whole has a solid system. I feel aware that they have a high level of governance awareness.

KOIDE: I serve on the Nomination Committee and the Remuneration Committee. Both meet at least once a month, 12 times a year, and more if necessary, though not so frequently as the Audit Committee. I feel the members’ intention to not formally but really improve substance from discussions in the committee meetings.

With respect to outcome, for example, the top priority issue of the Nomination Committee is the management succession planning and the process from a medium-to long-term perspective has already started. With the help of external professionals, we are evaluating managerial talent and interviewing candidates in various forms to understand their personality and way of thinking. By doing so, we are advancing it.

As for the Remuneration Committee, I think it has taken some shape by revising the Officer Remuneration Policy when the Medium-term Business Plan was launched last year. And we are discussing to further improve its effectiveness by reviewing it toward the next medium-term plan. I think it has been said for the past year that our great challenge is to integrate Parco in a real sense. In reorganization including personnel merger, we should also overhaul our remuneration system. I feel we can have such fulfilling discussions by exchanging frank views.

KOIDE: I hear there are actually some companies whose board members feel like being asked not to say too much in the Board meetings. The Company’s Board of Directors discusses with a positive desire to contribute to enhancing corporate values. I think governance in that sense functions in a very healthy form. Of course, when looking at details, there are various issues that should be or are being addressed. However, I think their way of creating systems and stance to strengthen governance are excellent.

Effectiveness of the Board of Directors

KOIDE: I think major issues identified by all Outside Directors are the failure to compartmentalize between the holding company and operating companies. They are changing to having a company-wide perspective instead of Parco’s perspective. I hear some of them say that they began to see a lot of things to do. It is wonderful for them to realize they have a different perspective while using their past experience. I think it is a big achievement that the holding company changed its organization and could show it in a visible manner. I think it was very good because based on effectiveness evaluation, the opinions of all Directors were reflected and holding company. However, we can see a form of organization that leads to success. This seems doable but can hardly be done.

Recently, I have had more opportunities to talk with people who were transferred to the holding company from Parco. They are changing to having a company-wide perspective instead of Parco’s perspective. I hear some of them say that they began to see a lot of things to do. It is wonderful for them to realize they have a different perspective while using their past experience. I think it is a big achievement that the holding company changed its organization and could show it in a visible manner. If I think it was very good because based on effectiveness evaluation, the opinions of all Directors were reflected and holding company. However, we can see a form of organization that leads to success. This seems doable but can hardly be done.
GOVERNANCE
Special Report: Dialogue between Outside Directors

The Company should not stick to Seki: young employees took the top positions in Japan, I think it was meaningful that quite seniority system. Given this situation in many companies that are stuck in a higher positions. So I think it was also Koide: I very much expect them to embody Seki: implemented after sharing common values with each other. It is important that all of them think it is troublesome to disagree with each other. It is important that all of them are willing and prepared to duly accept it.

Seki: You mean inclusion, right?
Koide: Exactly. There is no sense of increasing the number of women and foreign people simply for form’s sake without including diverse people. If people with various mindsets, at various ages, and with various backgrounds such as a Japanese individual who grew up overseas attend a meeting and many of them give ideas I would never come up with, I think new ideas will be triggered by collision between them. When I worked for a company in the United States, I directly felt that cross-border diversity activates discussion. It may be difficult to expect such breadth in Japan. However, also in this sense, I feel it will be difficult for the Company to grow for the future unless it really intentionally employs different types of people. The role of the holding company is to create the future. They may also have to think of age diversity such as appointing more young people.

Progress of the medium-term plan
Seki: I understand well that the Company steadily addresses the plan centered on three strategies including the Real Digital Strategy, the Prime Life Strategies and the Developer Strategy in spite of the tough situation of COVID-19. However, what is more important is to change the business portfolio. Specifically, the Company wants to decrease the revenue share of the Department Store Business and the SC Business to around 60% by 2030 from 80% and increase that of the Developer Business, the Payment and Finance Business, and Other to 40%. Despite this, honestly, I cannot see enough that they gear up for it. The Developer Business explained its due medium-term strategy but the Payment and Finance Business has not shown its future to us yet. Furthermore, I wonder whether having only these two businesses is enough. We discussed the expansion of the Group’s using several times in the past, but concerning new businesses, I am afraid there are extremely few proposals made.

Koide: The main focus of the current medium-term plan is to return to the profit level before COVID-19. Though the Company absolutely needs to achieve it, I think the medium-term plan they should really think of is rather what to do after that.

When someone mentioned the business portfolio transformation last year, there was a saying that they would study it in the next medium-term plan. I think it is very dangerous. If they start to consider a strategy for change after finishing the three-year medium plan, it will take another three years before they can implement it. Recovery may be possible if they work hard in the scope of the current business model, but beyond that, it is evident that the Company will not grow unless they do something that was not done in the past, including new businesses.

We cannot yet see what the Company wants to be five or ten years after. The Company name contains the word “retailing.” But I think there are many ideas and they should clarify it: whether they will continue to operate only a retail business, innovate the retail business, expand into different businesses, develop local areas, or also undertake manufacturing.

Seki: As for the business portfolio transformation, I think the Company has limitations with only current four business segments. I feel it is difficult to dramatically grow though it may maintain a certain level of growth. We have discussed but specific measures such as increasing new businesses have not been presented.

In my former position, I had the opposite experience. Proposals were made one after another so that I had to ask them not to invest any more. Compared to it, the Company is quite quiet. The newly established Business Portfolio Transformation Promotion Division is not expected to just switch the business portfolio because the word “transformation” is used in its name. As the name shows, I would like them to make revolutionary proposals.

In that sense, the Company should have more outside contacts. They do not necessarily have to find new buds and conduct M&A, but how about studying new initiatives with partners? Particularly, it is important for corporate divisions to coordinate internally but they should not struggle to do that. I think their important roles are to have outside connections and keep their antenna high.

Koide: As you said, the perspectives of stakeholders such as shareholders and investors is important. I think another key role is to repeatedly ask with a fresh eye in a sense whether matters taken for granted in the company are really OK. In terms of my expertise, the perspective of customers/consumers who are valued stakeholders is also important. I do not yet know what the Company will be like five years after. As it is a company with retail at its core, it cannot do business without a consumer perspective.

In thinking of the future of the Department Store and Parco or new businesses, returning to young generation’s thoughts about tangible and intangible goods and buying behavior, I think we need to continue to think of what will be demanded and what value we will be able to provide. I think I will be good if I can provide advice from the consumer perspective so that logic on the company’s side and the store’s side will not take too much priority.

It is difficult to develop the currently expected creativity unless it is an organization with diversity

implemented after sharing common awareness of issues.

Seki: I very much expect them to embody the primary role of the holding company here.

Koide: In the recent organizational reform, some young employees assumed higher positions. So I think it was also good in terms of age diversity. There are many companies that are stuck in a seniority system. Given this situation in Japan, I think it was meaningful that quite young employees took the top positions of divisions.

Seki: The Company should not stick to conventional business models in this rapidly changing society. In order to...