

**GOVERNANCE**

Special Report: Dialogue between Outside Directors



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

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Chairperson of Audit Committee



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Independent Outside Director  
Nomination Committee Member  
Remuneration Committee Member

**Governance of the Company**

**Seki:** The Company transitioned to a Company with Three Committees (Nomination, Audit, and Remuneration Committees) in 2017. Making various improvement efforts every year after that,

they raised the ratio of Outside Directors to more than 50% this fiscal year. Such efforts to improve the organizational structure and meet formal requirements are important. Essentially, however, I think it is much more important in terms of governance whether the Board of

Directors actually functions or the three committees of the Company with Three Committees (Nomination, Audit, and Remuneration Committees) function.

**Koide:** As for governance, I think how strongly and seriously the top management is committed to it will make a difference. In general terms, as the Board members have different notions, I think it is quite difficult to close the gap between them. In the Company, however, I feel the leadership of the top management makes all follow the same track.

**Seki:** I serve on the Audit Committee. The Company holds the Audit Committee Member meetings as well as the Audit Committee meetings. In the Audit Committee Member meetings, we more freely discuss current issues as well as auditing execution of duties of the President and Representative Executive Officers and other Executive Officers and the presidents of operating companies.

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 anew 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.

**Seki:** As for governance, the top management's stance would be important. I feel the top management is thinking about how they will use Outside Directors in the right way. In short, they are not just a token or a form. I think it is the biggest point.

**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 value. 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**

**Seki:** Every year an external evaluation organization evaluates the effectiveness of the Board of Directors. I recognize that effectiveness evaluation is the process in which all Inside and Outside Directors exchange opinions and share each other's issue identification. Major issues raised last year are the "clarification of the roles of the holding company" and the "clarification of the roles of the Board of Directors." I think both Outside Directors and Inside Directors' stance to resolve issues through repeated open discussions and its process are very important and beneficial.

I think effective evaluation is a tool essential to the process in which Inside Directors and Outside Directors do not just say their opinions one-sidedly but repeatedly discuss so that they can rely on each other to resolve issues. Also concerning response to evaluation results, we can clearly see that the executive side is very seriously trying to act based on the results. Annual effective evaluation seems to help improve the 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 and the failure to integrate Parco. However, I think it was excellent to change the organization with great courage this fiscal year. I think it caused various frictions to so greatly change the systems and appoint many people from Parco to the

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. I think it was very good because based on effectiveness evaluation, the opinions of all Directors were reflected and

I would like to expect for the recent organizational change conducted with great courage as a holding company



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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

change it, it should be a company in which young people and women are more empowered. This is because more than half of the customers of the Department Store and Parco are women.

**Koide:** In a sense, the Board of Directors can increase the number of female members by inviting some from outside. However, we cannot say the Company really utilizes women unless the female employees are promoted from inside. In this aspect, I still feel incompleteness. Though there may be a certain number of women in middle management positions, I am very concerned about the fact that Executive Officers are all men.

**Seki:** Creativity is very much expected of the current Company, which is working to change itself. I think it is difficult to develop such creativity unless the Company is an organization with diversity.

**Koide:** Development will be limited if all think the same thing. As diversity also means that different values collide with each other, it is not so easy, and in fact, it is accompanied by pain. They need to think it is all right to collide with each other. They cannot utilize diversity if they 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 Strategy, 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 wing 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:** Simply by receiving referrals to various people from the network of Outside Directors and visiting them, they will be able to meet a considerable number of people. At first, I think it will be good to meet ten people of the type whom they have never met. After meeting ten people, they will be referred to other people and the network will

increasingly expand. We will not grudge cooperation. So I hope they will utilize Outside Directors.

### What we as Outside Directors focus on

**Seki:** Formerly I served as CFO for about six years and also was responsible for IR. During my former tenure, I was trained by institutional investors in Japan and overseas and sell-side and buy-side analysts. They always have a shareholder's perspective, which means thinking of what to do to improve the company, that is, to enhance corporate value. They gave honest opinions from the perspective of not damaging the value of the company. When I was told what I did not want to hear during dialogue, I always fed it back to the management meetings and the board meetings. Such experience is still ingrained in myself. When considering various proposals given from the executive side, I try to see things from the perspective of what the capital market thinks of this. I think I as an Outside Director act on this.

**Koide:** As you said, the perspective 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 ten years after. But 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 it 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.

