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## Outside Director's View : J. Front Retailing Operations Now and in the Future

Outside Director  
Chairperson of Nomination Committee and Remuneration Committee Member

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I was appointed to be an outside director of J. Front Retailing by a resolution at the 2012 annual meeting of shareholders. Since the transition to being a company with three committees in 2017, I have served as the chairperson of the nomination committee and as a lead director for executive sessions.

The role of an independent outside director is to supervise the execution of operations. I see my role as to take into account multiple perspectives such as the environment the company faces and the expectations of the market, to provide factors for consideration in execution in order to achieve the best solutions according to the corporate strategy, and

supervising how execution leads to improved corporate value, for deliberation by the board of directors.

Corporate governance is both defensive and offensive. On the offensive, there are roles to serve as a brake or a calming force on proposed courses of action, and on the other hand roles to provide a further push to actively take steps even when risks are involved.

On the defensive, my attention is constantly fixed on any actions that might contravene the corporate credo of "Service before Profit" or violate the law. What I emphasize at such times is to ensure that what is accepted as common sense inside the company is not considered irrational outside the company, and to bring in benchmarks from outside. It is quite common in Japan for people to keep working with the same colleagues once they are inside the company, so it is especially important to use external benchmarks.

When working as an outside director, my viewpoint from an offensive angle is to be constantly aware of global trends, in particular of (1) globalization and (2) the rise of the sharing economy as a new economic system through the progress of technology and digitalization.

These changes take place at the pace of just seconds, and for the sharing economy in particular consumer values are shifting from wanting to own to wanting to use things, or rather from products to experiences, altering the very concept

of retail. In addition, in an environment where our results can be affected by geopolitical changes in the US, China, and Korea, we have to consider how incorporating AI and big data into business models will decide future corporate value. My attention is focused on whether our strategies reflect the perspectives of globalization and digitalization in every opportunity.

In terms of defense, given the recent occurrences of unexpected events, I always reiterate the fact that we have to imagine the worst-case scenarios and decide in advance what to do about them, in order to avoid making the wrong decisions in a panic.

As an outside director, my job is to look at the consistency and balance between the quantity and quality of decisions, and for my own position, to consider the balance of impartiality vs affinity, time and commitments, confidentiality and sincerity.

Regarding my activities in the nomination committee, these committees elect executives, including successors for the next term, something which previously was the sole prerogative of the president in Japanese companies. As a result, out of the three legally mandated committees, many companies are still groping toward the correct way to manage this area, which demands the highest level of caution and innovation.

In general the role of the nomination committee is to correctly determine the status of human resources involved

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in management and to assign them in order to gain improved corporate value. The committee's supervision is essential to make sure that the right people are in the right place, that the best person to achieve the mission of a particular position is assigned. To make it possible for the right people to be assigned to the right places, the committee must have sufficient information on the candidates. This is why we have our management human resources evaluated by a third party (regarding their competency, values, psychological disposition, and growth potential). We also define the qualities, experiences, and capabilities required as the competency for our management human resources, so that we can evaluate whether candidates satisfy these conditions when selecting our officers.

The main roles and duties of the nomination committee are to decide on candidates for the board of directors to propose at the annual meeting of shareholders, and to investigate and provide answers to questions from the board of directors. I have served as the chair of nomination committees for several other companies, but each company expects different activities from these committees. The election of candidates for directors, which is the legal role of the nomination committee, is the same as of other companies with such committees, but when electing outside directors, we look at their experience, area of specialization, term of appointment and other factors in a portfolio. This is scrutinized from as early as we can, according to the needs of our corporate strategy.

The current challenges we have are to secure the right candidates and to consider the composition of the board to make even better use of diverse human resources, inclusive of their term of office, given our rapidly changing economic environment. A particular feature of the Company's nomination committee is that election or dismissal of executive officers as well as officers of the main subsidiaries is part of its scope under the terms of reference of the board of directors.

In addition, the board of directors requires us to handle the selection or dismissal of representative executive officers and of the chairperson of the board of directors, and examining the assignment, personal development, and training plans for management human resources, taking into account the succession plans.

The succession plan for the chief executive officer is for the nomination committee the most important decision in terms of strategy. In some companies the president retains the sole prerogative of appointing their successor, but the Company has systematically discussed this issue through its voluntarily created human resources and remuneration committee even before our shift to the new system.

With the establishment of the legally mandated nomination committee, we have emphasized clearer selection processes and greater transparency, methodically discussing the election of the relevant candidates. Sharing internal information with non-company committee members is essential for this, just as in the board of directors. Doubts are often expressed as to whether outside directors can really assess internal human resources, but for the committee to function, it is essential to have sufficient information on the human resources that are the subject of the committee's actions.

As an outside member of this committee, I have never been refused access to information as required for execution of my duties, and in fact information is progressively provided. There are also opportunities to come into contact with management human resources, including candidates for future executive positions, at training camps and so forth, providing us with the necessary information to examine the issues.

Given the relatively wide scope of our nomination committee, and its decision processes involving multiple systematic discussions, as a rule we meet every month. As an independent outside director in the nomination committee, I feel both a sense of my responsibility and also of satisfaction in

selecting the human resources who will be directly instrumental in raising the corporate value of J. Front Retailing.

Speaking candidly regarding the Company's future challenges, I believe there is a need to build up a sense of crisis.

In terms of offensive challenges, we must create a new business model amidst the rapidly changing corporate environment. In the eight years since my appointment, the rise of e-commerce in the distribution industry has been phenomenal. This spurred me to propose the rapid creation of countermeasures for the future of our store-centered retail operations. In addition, over these last few years consumer values are shifting from owning to using, while the new economic system of the sharing economy is developing at a rapid pace. Regarding the circular economy, I think it is essential that we consider how to turn this situation into business opportunities that can solve issues facing society. We need to have a sense of crisis to view as an urgent issue how to turn the rapid proliferation of AI and the IoT into a favorable situation for us.

We must appoint the right experts in the right places in order to achieve this, and encourage diversity in our human resources as they develop. At the same time, we must also continue to rapidly improve our productivity through the thorough adoption of new working styles.

From the defensive view, promoting diversity means greater complexity in management. The issues brought about by this increase in complexity will have to be responded to, as will risks such as those of natural disasters. Measures for cyber security are a particular urgent issue. I believe such persistent efforts continue our credo of "Service before Profit" and are in line with the concept of ESG, and in implementing them we must hold fast to such tenets of our corporate philosophy, overall adopting a gentle but firm attitude of flexibly adapting to diverse changes. It is my intention as an outside director to steadfastly maintain this attitude.