

# 05 Corporate Governance Director Dialogue



## Junji Tsuda

Appointed as a director at NSK in June 2022 after serving as president and representative director of Yaskawa Electric Corporation. He serves as Chair of the Nomination Committee.

## Mitsuhiro Nagahama

Appointed as a director at NSK in June 2020 after serving as vice-president of Mizuho Corporate Bank, Ltd. (now Mizuho Bank, Ltd.). He serves as Chair of the Compensation Committee and a member of the Audit Committee.

## Sayoko Izumoto

Appointed as a director at NSK in June 2022, having extensive experience as a certified public accountant. She serves as Chair of the Audit Committee.

## Saimon Nogami

Appointed as a director at NSK in June 2013. After serving as representative executive officer and senior executive vice president, he was elected Chair of the Board of Directors in June 2023.

NSK strives to improve its corporate governance system in order to achieve sustainable growth and increase corporate value in the mid to long term. We asked three outside directors and the chair of the Board of Directors to discuss the progress and challenges of the Mid-Term Management Plan (MTP2026) formulated in 2022 and explain how the Board of Directors will work to increase corporate value in the mid to long term.

## 01 Current state of NSK's Board of Directors

### Mr. Nogami

In 2004, NSK became one of the first companies to transition to a Company with Three Committees system. Compared to when I was appointed as a director around 2013, I strongly feel that over the past four or five years in particular the Board of Directors has been able to have

more free and open discussions about the current state and future direction of management. I think there was a change in our directors' awareness of their responsibilities and accountability spurred on by the introduction of the Corporate Governance Code in 2015 and increasing demands from society. I think the outside directors also felt this shift. I also believe that the increase in the number of people with such an awareness who take on the responsibilities of becoming outside directors at NSK has had a significant effect on the way our Board of Directors operates.

As a result of this change, discussions are being held

on the direction in which we should take the Company based on a comprehensive view of NSK's position and actual capabilities in light of the strategic approaches being taken by companies and the state of the industry as a whole. For example, in budget discussions and the formulation of the Mid-Term Management Plan (MTP2026), the outside directors have been deeply involved in substantive discussions and have made quite strong suggestions.

## 02 Impressions of the past year since being appointed

### Mr. Tsuda

What has surprised me in serving as an outside director for NSK over the past year is that, as a Company with Three Committees, there is a lot of authority on the executive side. For example, in the case of NSK's joint venture with JIS (Japan Industrial Solutions) in the steering business, after the Board of Directors made a resolution on the basic policy and strategic framework for MTP2026, we received a report on the joint venture as a concrete step in the structural reform of the steering business. This was not treated as a matter for resolution put before the Board of Directors, but as an executive action based on the approved strategy, where a swift decision was made by the executive side, and the details were reported to and discussed by the Board of Directors. I was really surprised—in a good way—that NSK has an organizational structure that enables the executive side to take responsibility and make decisions when circumstances require a change in tactics to drive the Company's strategy forward.

For the Board of Directors, it is important to monitor whether the executive side is progressing toward the targets set by the Board. In a company with an Audit and Supervisory Board, there are many proposals that should

be approved by the Board of Directors, some of which are difficult for the Board to decide upon. However, this is not the case for NSK, being a Company with Three Committees. The focus of NSK Board meetings is on discussing key mid- to long-term strategy rather than approval for executive proposals, making Board of Directors meetings very effective.

### Ms. Izumoto

Speaking from my position as a member of the Audit Committee, I receive a greater amount of information than other outside directors because the Audit Committee meets on a monthly basis, which is more frequent than other committees. If we have any questions, the Internal Audit Department provides detailed explanations, and we receive necessary information in a timely manner. Considering things from my position as an outside director, there are times when I can't get quite the information I want unless I go and get it myself—but in the case of NSK, the Company answers my questions immediately and has been receptive to my proposals.

In addition, opportunities for us to visit production sites have gradually increased. After seeing only a little

bit of a plant, the other outside directors seem to have a good understanding of the shop floor and are able to ask pointed questions and make salient observations concerning site management. Coming from an accounting and auditing perspective, I am very impressed with the perceptive opinions of the other outside directors during these visits. In this sense, I feel that NSK's Board of Directors has a well-balanced makeup of outside directors with diverse backgrounds.

## 03 Diversity and roles of outside directors

### Mr. Tsuda

I am a member of the Nomination Committee. NSK prepares a long list of candidates for the outside director selection process. I feel that the selection process is really excellent because not only does the list of outside director candidates emerge at quite an early stage, but it is also very clear what kind of candidates NSK is targeting.

**In addition to further developing discussions by the Board of Directors, I would like us to be more aware of proactive governance.**





**We have made great progress in addressing the key issues of MTP2026. The most important challenges lie ahead of us.**

**Mr. Nogami**

As a prerequisite for the appointment of outside directors, we have to consider the functions and roles of the Board, the size of the Board, and what composition of membership we should aim to achieve. At present, we try to structure the Board with two or three outside directors who are corporate managers or have corporate management experience from companies of a certain size and industry, as well as accounting professionals and people with management experience in capital and financial markets. Our outside directors serve for relatively short terms, but we decide who is most suitable for appointment next based on these prerequisites for the composition of the Board.

**Mr. Nagahama**

As NSK is a manufacturing company, we believe unequivocally that it is desirable for our outside directors to have experience in the management of manufacturing companies. On the other hand, the Corporate

Governance Code requires disclosure of our directors' skill matrix. The idea behind this is to encourage companies to appoint multiple directors with different experiences, knowledge, and areas of expertise to discuss the Company's management tasks from their own unique perspectives, and, by doing so, aim to improve the value of the Company in the mid to long term. This is the reason why we also appoint people outside of the manufacturing industry as outside directors.

Given that I come from the financial sector, it is natural for me to provide input on finance and finance-related issues, but the most important area where I should also contribute in terms of improving NSK's corporate value is the development of operational infrastructure. In particular, I believe that one of my key roles should be to strengthen and expand the governance framework on a global and Group-wide basis.

The foundational strategy of the Mid-Term Management Plan itself was basically created by those on the executive side. In response to this strategy,

outside directors from the manufacturing industry offer astute opinions and ask pointed questions that get to the essence of the plan from a manufacturing perspective, whereas I am more conscious of exploring the global and Group-wide governance framework, as an alternative perspective. Over the past year, since the launch of MTP2026, we have made significant progress in addressing key issues, including those concerning the steering business. The most important challenges lie ahead of us. To achieve the goals of MTP2026, I would like NSK to squarely address what it needs to create a governance framework that supports the Company's strategies and response to challenges, and how it can strengthen and expand that framework.

**04 Follow up on progress and understanding of issues concerning MTP2026**

**Mr. Tsuda**

When I was appointed as an outside director, I first needed to understand the positioning of MTP2026 since it had already been established. NSK is a BtoB company like Yaskawa Electric and has many customers in the same industries. The span of NSK's business with its customers is also long in the sense that NSK's products are incorporated into its customers' products. It takes three years from the time the customer chooses NSK to the time sales are actually made, but the development phase starts before that. In other words, if development does not begin before the start of MTP2026, sales for those orders will not make it in time to contribute to the plan. I was anxious when I first saw the contents of MTP2026, but when I listened to the ideas behind it, I understood that it was a

plan designed to come after the seeds have already been sown, and I was relieved to confirm that things were proceeding under those conditions. However, it is necessary to make preparations for the next mid-term management plan during this five-year plan, which I believe presents a challenge for NSK. Although it is difficult to see what the future holds, I believe that major developments in the manufacturing industry occur on roughly a 50-year cycle. Therefore, we must envisage the direction of how the world is likely to change over the next 50 years, and how the world will look and be operating 10 years from now. We must begin development based on those projections now, or we won't be ready in time. In that respect, when I visited NSK's Fujisawa Technology Center and was shown that NSK has various profound technologies, I wanted to see more of how those technologies are being sown as seeds for the future. I feel that NSK has a lot of technology seeds to sow.

#### **Ms. Izumoto**

In my case, over the past year, I have conducted audits from the perspective of confirming how far MTP2026 has been incorporated into frontline operations, and whether employees are taking ownership of the plan. I am an outside director and was only in the first year of my appointment, so understanding the contents of the plan was my starting point. I also interviewed employees at several plants about whether the content of the plan was created by those on the front lines as opposed to a top-down perspective, and what kinds of discussions they had at their respective sites. When I listened to what they had to say, I realized that the plan was created by everyone, in a hands-on manner. In terms of the progress of the Mid-Term Management Plan, while there are some areas where things have not gone as expected due to the impact of the slowdown of the Chinese economy and the rise in prices for procuring materials and parts, I feel that everyone has a firm grasp of what they can achieve in line with the flow of MTP2026 and how much they can accomplish over the course of the next five years.

The keyword for MTP2026 is Change & Go Beyond,

and I believe that the human resources responsible for the next mid-term management plan after MTP2026 will change. It is natural in any company for someone in a certain position to be transferred to another role with another person coming in to take over for them. However, from what I have seen inside NSK over the past year, I feel that NSK is a company that manages to pass the baton in these personnel transfers to people who are able to truly deliberate the key issues facing the Company, and I think that this strength is part of the DNA of the organization. In other words, I feel that the Company's goals are not an uphill struggle because the direction of management and specific actions to be implemented to achieve those goals are being shared at each operational site.

#### **Mr. Tsuda**

The "Change" that President Ichii is talking about is a really difficult thing to accomplish. Depending on the case, I think there are two types of changes that might be required: changes to the Company's culture itself and changes to products or ways of working to adapt to the requirements of society. What I did at Yaskawa Electric was the former, so I had a really hard time.

#### **Mr. Nogami**

For NSK, the concept of "Change" has many aspects and is filled with various sentiments, but one of its essential aspects is a sense of speed. This means further accelerating the cycle of identifying issues, discussing them together, and taking action. For example, for management and frontline issues, we believe that we will be able to overcome another barrier or two that we were unable to overcome before by aiming to repeat the improvement cycle 10 times instead of the three times we have ended up repeating it until now.

In terms of challenges and progress for MTP2026, the biggest challenge facing NSK when formulating the plan was how to envision the future of the electric power steering business, which had already started to put pressure on the Company's profitability. With the increasing demands for technological development and the necessity of establishing a global supply system in the dramatically changing automotive industry, the question was whether NSK should continue flying solo with the steering business or seek out another solution. After being thoroughly discussed on the executive side and even

**The issue lies in the extent to which we can grasp the changes in society and the outlook for the future, and sow seeds for the future beyond MTP2026.**





## Further increasing productivity will lead to an increase in corporate value in the mid to long term.

further discussed by the Board of Directors, we decided to take a new leap forward by incorporating the carveout of the steering business into the MTP2026 strategy.

That being said, we are already in the midst of intensifying our discussions on how NSK should grow and what kind of company we should be following the steering business carveout. I hope that these discussions will lead to a solid increase in current business performance and expect that the increase in performance will lead to higher valuation from the stock market.

### Mr. Nagahama

At the start of MTP2026, it was clear that the steering business was the most urgent key issue to be addressed, so I think it was a major achievement that we were able to carve out such a big path in a short period of time after starting MTP2026. I highly commend the efforts of the executive side.

As NSK seeks to achieve further growth based on its new

business portfolio for the remainder of the five-year plan, we must further deepen the level of our discussions and work decisively to implement essential measures. The main themes concerning the achievement of Growth with Profitability, one of the key management tasks in MTP2026, are making a full-scale response to the electrification of automobiles, expanding the Industrial Machinery Business, and strengthening our response to new products and new business areas across the organization. At the same time, the immediate challenges for NSK in terms of establishing the business infrastructure to support its ability to address these management tasks include enhancing the risk management system on a global and Group basis and deepening the level of the business management framework. Another key point will be to review and further enhance the director/officer compensation system. In last year's Integrated Report (NSK Report 2022), as chair of the Compensation Committee, I stated that NSK has an advanced and pioneering compensation system. My view of

this has not changed, but social demands and the work environment are changing day by day, and the speed of that change is accelerating. In this evolving environment, we will focus on establishing an optimal compensation system that supports new business strategies and contributes to increasing NSK's corporate value in the mid to long term.

## 05 Requirements for improving corporate value in the mid to long term

### Ms. Izumoto

To increase corporate value in the mid to long term, I think it is necessary to further increase frontline productivity by leveraging the power of digital technologies. This will require substantial investment in the future. NSK has a truly long tradition of using its production equipment for a long period of time by keeping it well-maintained, with some machines at its plants being in operation for 30 to 40 years. Nevertheless, NSK must continue to increase productivity as Japan's population continues to decline.

The MTP2026 management tasks also properly highlight the ultra-stabilization of production, which consists of initiatives aimed at improving productivity. However, I think that this will be quite a tough challenge because NSK has manufacturing sites all around the world. The investments for this, which include digital technologies, require a substantial amount of cash, so I hope that President Ichii and the other executives will exercise strong leadership to steer management in the right direction.

### Mr. Tsuda

Increasing productivity is a fundamental part of the manufacturing industry. Emerging countries looking to

catch up in the industry will introduce the latest machinery to start their businesses, so even a long-established company like NSK needs to invest a certain amount in order to remain competitive. When investing, financial standing can be an issue, but NSK has an adequate financial structure to make investments without any problems. I would like to see NSK leading the industry in productivity improvement investments.

It is important not only to look beyond MTP2026 to the next mid-term management plan but also to look further ahead to see how much NSK can achieve. When it comes to development, it's normal for nine out of 10 projects to end in failure. What we need to look at is how well proactive governance has been implemented in the Company's organization. In other words, we need to examine whether management is capable of pushing the Company forward. China is a threat among the countries that are catching up in the industry. Not only are Chinese companies successively upgrading their equipment but also their technical personnel work hard, and many of those personnel enjoy their jobs. I think that we need to work to ensure that Japan doesn't fall behind.

### Mr. Nagahama

We need to focus on employee engagement. This means employee morale, loyalty to the company, and a proactive spirit and approach to taking on new initiatives. NSK has a good financial position and stable business conditions. All of its employees are sincere, honest, and reliable workers. In this age of change, it can make all the difference whether we put stability first and take the safe road, or go beyond to actively seek out the next opportunity. As Mr. Tsuda said, compared to the aggressiveness displayed by China, I feel that the employee engagement in Japanese companies is generally mild. I think it is important to revitalize the Company in a healthy and balanced manner by maintaining NSK's great corporate culture as it further increases engagement, for example, by leveraging certain competitive principles and expanding its risk tolerance framework.

## 06 Future evolution of corporate governance and expectations for outside directors

### Mr. Nogami

NSK's Board of Directors, which has evolved and changed over the years, allows its members to not only freely and openly discuss our strategic direction from a broad perspective but also to deeply discuss individual elements of that strategic direction. I would like us to further develop these ideas in the future by continuing these discussions. I also believe that it is necessary to deepen the level of research into monitoring techniques, so that the Board's monitoring function can be even more effective than before. If I were to add further to that, I would also like us to be more aware of proactive governance as the Board of Directors. When the

executive side presents a proposal to take strategic measures for the future of NSK, of course we will hold them accountable for the actions outlined in the proposal, but I would also like the Board to be able to support the executive side by maintaining a comprehensive awareness of the risks involved. The support from the Board of Directors is very encouraging, and I would like to instill more of a healthy risk-taking mindset in the executive side going forward.

Finally, I would like to mention that I believe my appointment as the Chair of the Board of Directors in June 2023 has shown NSK's resolve in one respect. My appointment means that the position of chair of the Board is not necessarily held by a former company president after they have been appointed chairman of the NSK Group. I am fully prepared to take on the roles and responsibilities demanded of the chair of the Board, including the evaluation of the executive side.

## | Message from NSK's New Outside Director

### **Mikio Fujitsuka**

Appointed as a director at NSK in June 2023 after serving as vice-president and representative director of Komatsu Ltd. He serves as a member of the Nomination Committee.



After more than 40 years of experience at a construction and mining machinery manufacturer, where I engaged in accounting, finance, and corporate planning operations, I have served as an outside officer at two manufacturing companies for the last four years. Based on my experience so far, I believe that the starting point for competitiveness in the manufacturing industry lies in three key frontline areas: (1) the development of new technologies and products, (2) enhancing the level of products through improved manufacturing techniques, and (3) interaction with customers through sales and support. For a company to grow, it is crucial to develop existing strengths and overcome weaknesses, and I intend to fulfill my role at NSK from this approach. As an outside director in a position slightly removed from the executive side, I aim to contribute to the enhancement of NSK's corporate value in a broad sense by checking whether NSK's understanding of sound judgment is in line with that of society, whether the policy of "Bad News First" is being thoroughly implemented, and whether risks are being addressed in a timely manner.