

Feature 1 Dialogue between Omron President and CEO Hisao Sakuta and Outside Director Kazuhiko Toyama

Overcoming Crisis through
Governance
—Management in Times of
Adversity—

Outside Director Kazuhiko Toyama brings a unique perspective as an investor and business leader with management experience at a consulting company and as the former COO of the Industrial Revitalization Corporation of Japan. Mr. Toyama and Omron President Hisao Sakuta conducted an insightful dialogue on the the fundamental essence of the current economic recession, the role of outside directors, the importance of a company’s on-site capabilities, and the governance needed to overcome an economic crisis.

*Messrs. Toyama and Sakuta were interviewed by the annual report editor.

OUTSIDE DIRECTOR **KAZUHIKO TOYAMA** SHARES HIS THOUGHTS



Kazuhiko Toyama
Kazuhiko Toyama has previously held positions at The Boston Consulting Group K.K. and played a role in helping to found and later serving as President and Representative Director of Corporate Directions, Inc., Japan’s first independent management strategy consultancy, which successfully turned around 41 companies in Japan. In 2003, Mr. Toyama was appointed Executive Managing Director and COO of the Industrial Revitalization Corporation of Japan at its inception, and in April 2007, he founded Industrial Growth Platform, Inc., which provides management support services focused on realizing long-term, sustainable business operations and elevating corporate value, and assumed the role of CEO and Representative Director.



The “Global Bubble” Has Burst

— What do you view as the fundamental essence of the current economic crisis?

Mr. Sakuta I believe the “global bubble” has burst. You could even go so far as to say that one of our values has crumbled. I think many companies are starting to ask themselves, “Why does this company exist? What’s our purpose?” I believe that is the first step in the process of adjustment or normalization. As a matter of fact, all kinds of bubbles arose one after another. I think the current economic crisis is the result of economic activities and values that place too much emphasis on money gone too far.

Mr. Toyama All economies experience bubbles and bubble bursts at certain intervals. The situation has now progressed to an adjustment stage, but I don’t think this will be the last time a bubble like this occurs. At the same time, the occurrence of bubbles is irregular and not cyclical, and can happen in any type of economic system. For example, Japan’s massive economic bubble in the 1980s occurred despite a very closely regulated, financial industry that was so controlled under the convoy-fleet system that it could have been called economic socialism. The conditions are very different this time, since the bubble arose from a system in the United States that could be described as laissez-faire. The real world we live in is too complex for academics to come up with economic theories to prevent bubbles.

Check the Company’s “Common Sense”

— The current economic environment has led to much discussion about outside directors. What do you consider to be the primary role of outside directors?

Mr. Toyama A company is an organic entity. Companies are driven by a collection of stakeholders, or strictly speaking, a group of stakeholders with slightly different interests. The important thing to note is that there must not be an entity in that organization that has absolute power and that is not monitored by any individual or group. It is essential for the health of a company to have a mutual oversight and control working among stakeholders. Outside directors play a role in providing such oversight and control. At the same time, the position of the outside director is not absolute, as it is monitored by the General Meeting of Shareholders

and the capital markets. I think the outside director is one of the pieces that create that check mechanism.

— What do you expect of an outside director?

Mr. Sakuta No company purposely acts against accepted common sense. Nevertheless, companies tend to be made up of individuals with similar values. At Omron, the outside directors provide external perspectives to ensure the common sense of the Company does not go against the common sense of society at large. We have not had an instance so far where the values of the internal directors were at odds with those of the outside directors. In practice, our outside directors offer a fresh perspective during discussions of our business activities and objectives.



On-site Capabilities Cannot be Improved at the Worksite Alone

— You have said that on-site capabilities are important. What are you doing to increase the Company’s on-site capabilities?

Mr. Sakuta I always tell our employees to make their jobs more interesting. The Company has a wide range of people involved in production, development, sales, planning, and other operations, and each person has their own understanding of their assignment. I think the starting point for raising our on-site capabilities is for each employee to focus on the specific issues at their own worksite and try to think of solutions. At the same time, raising our on-site capabilities is not done only at the worksite. It’s important to approach it from a position that is one step above the ground level as well.

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Our on-site capabilities will improve when we bring these approaches together.

— As an outside director, how do you feel about this approach?

Mr. Toyama On-site capability functions as a part of a very organic interweaving of elements. Because one person's capabilities are limited, capabilities in reality only arise in relationships. In contrast, blindly following a strategic formula of keeping some parts and eliminating others can break down important relationships within a company and become an exercise of merely conforming to the strategy that will inevitably lead to failure. The challenge is to find the optimal balance of emotion and logic, and I think Omron is one company that has found that balance.



Corporate Philosophy is the Growth Driver

— How are the Omron Principles put into practice?

Mr. Sakuta To me, the Omron Principles are just like oxygen. We may not always be conscious of their presence, but we can't survive without them. The biggest challenge is getting all our employees to understand the principles for themselves so they can decide how to manifest the principles in their actions. The principles are meaningless if they do not lead to action. While we don't force our employees to act out the principles, we frequently visit work sites to discuss them with our



employees. As their understanding deepens, the principles naturally begin to show in their actions.

Mr. Toyama Governance is a crucial element for hedging against terrible consequences, but effective governance alone is not enough to raise a company's corporate value. Rather, I believe that a company's principles are the fundamental source of strength for future growth. When the values held by a company's top executives as well as by all of its employees are values that society recognizes, society then pays for the products that reflect those values. That, I believe, is precisely what corporate value is.

6.7 Billion Stakeholders

— Omron's corporate motto is "working for a better life, a better world for all." How does Omron define "world?"

Mr. Sakuta In this context, I understand "world" as "people with common interests."

— Is it just interests?

Mr. Sakuta "Interests" goes beyond money and extends to the interests shared by all 6.7 billion people living on the Earth and our children, future generations. I believe that maintaining a global environment that will support the survival of mankind is a common interest for everyone. I believe our corporate motto, "At work for a better life, a better world for all," aligns quite closely with this view.



— In other words, Omron has 6.7 billion stakeholders. How do you prioritize among them?

Mr. Sakuta When I was appointed president, I always said employees were first, followed by our customers, and then our shareholders. However, after six years in this position, my perspective has changed. A company cannot exist without the support of all its stakeholders, so I no longer see it as a matter of priority. Each stakeholder is essential.

Mr. Toyama It is a bad example of reductionist thinking to break down everything into separate elements and create a hierarchy. Stakeholders have a mutually dependent existence, and it's a mistake to rank them and put shareholders at the top. People try to explain social phenomena breaking down the whole into individual elements and pointing to one specific causality that puts them together. That way of thinking is not rooted in reality.

The current series of collapses of economic bubbles have made shareholders aware of their mutual interdependence, and I think now is a good time for all of us to take another look at our role and investment decisions in terms of governance.

In other words, I think of shareholders as holding the stakeholder baton over a long time frame. While there will always be shareholders, there is a time when each shareholder receives the baton to carry it for a time along the continuum. If shareholders have a responsibility to society, it is to consider diverse factors from various perspectives, including improving the long-term sustainability of corporate value, and pass the baton to the next generation of shareholders, just

as all lives on Earth pass their batons on to the next generation.



Shared Timelines

— What did you learn from your experience at the Industrial Revitalization Corporation of Japan about what is necessary for companies to make it through times of crisis?

Mr. Toyama In times like these, it's important to return to the basics and reconstruct the current issues as they are without colored lenses and think what the company should do. It's also an important time for managers and all shareholders to be humble and apply their essential intellectual curiosity to reconsider what is happening and what the company's direction should be. Some companies will go into hibernation while others will bravely implement creative destruction that will put distance between themselves and other companies.

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It's a difficult time for all companies, which must confront decidedly different issues depending on short-, medium-, and long-term time frames. Stakeholders are tested on how they address these different issues while sharing their different time frames. Simply taking an idealistic long-term approach might lead to bankruptcy in a year, which would completely negate any plans for 10 years in the future. Yet concentrating solely on resolving the issue at hand could force a company to sacrifice something that would be important a decade from now. That's why I think it is important to ask shareholders and all stakeholders to help find solutions that will work in the short, medium, and long term.

These periods of adversity are the time to cultivate human resources, which is essentially the same as improving "on-site capabilities." I think you'll find that people grow more in times of hardship than when times are good; in retrospect, that's been true in my life. A company's ability to grow over the long term is ultimately decided by the strengths and relationships of its individual employees. The current conditions are an opportunity for many companies, and I think Omron is one of those companies.

— **Is Mr. Toyama's role as an outside director therefore to accommodate the time frames of various stakeholders?**

Mr. Toyama That is one of my jobs, but I believe I must represent the perspective of how Omron can continue developing and evolving over a longer time frame and on a broader axis. My job is not to represent the interests of any single stakeholder. As an outside director, my job is to provide perspective for the Company's overall

corporate value. I believe I have been asked to do the best I can to help guide the Company over a longer time frame and on a broader axis.

— **What expectations do you have for Mr. Toyama as an outside director for the Company?**

Mr. Sakuta We are envisioning scenarios for the Company when conditions are bad rather than when conditions are good. In these circumstances, I would like Mr. Toyama to take a hard look at Omron using his abundant real-world experience at the Industrial Revitalization Corporation of Japan. I would also like him to provide perspective from outside the "village community" that a company can become. The input of Mr. Toyama and our other outside director, Mr. Masamitsu Sakurai, who has a wealth of experience in management at a company similar to Omron, will be invaluable as management seeks optimum solutions for further enhancing the quality of Omron's corporate value.