

Discussion with Outside Directors 2 (Audit and Supervisory Committee Members)



We held a discussion with three outside directors who are Audit and Supervisory Committee Members: Mr. Takaharu Ando, Mr. Kazuhiro Suzuki, and Mr. Tsuneyoshi Tatsuoka. The themes discussed included evaluation of the effectiveness of NITORI Group's Board of Directors and the sustainable growth of the NITORI Group. The conversation was led by Kenichiro Aoya, Executive Officer and General Manager of the Legal Office.

\*To avoid spreading COVID-19, those present wore face masks during the discussion and removed their masks only to have their photographs taken.

Enhancing the Effectiveness of the Board of Directors

In evaluating the effectiveness of the Company's Board of Directors, we have aimed to delegate a greater number of decisions on business execution-related matters to the executive directors, while shifting the matters to be discussed by the Board of Directors to medium- to long-term strategy. Could you tell us if you feel that this has been successful, and if you think that the themes to be addressed as agenda items by the Board of Directors are appropriate?

**Ando:** My impression is that increased delegation to the executive directors and the shift toward discussion of medium- to long-term strategy are progressing incrementally; I think things are heading in the right direction. As one point to be aware of, however, I'd suggest that minor changes or issues that occur at stores or other frontline locations sometimes presage larger medium- to long-term issues, so I feel that, rather than narrowing down the number of themes too much, I'd like such frontline changes or issues to be addressed as a theme within the discussion of medium- to long-term strategy as well. And I'd like us to keep that perspective in mind in future.

**Suzuki:** I feel that increased delegation to the executive directors has brought about a shift from discussion of detailed matters to discussion of medium- to long-term themes.

**Tatsuoka:** I have the impression that we've steadily transitioned from "management-style" discussion of individual store openings and similar matters to "monitoring-style" discussion of cross-cutting issues. Looking ahead, as the Company works toward achieving its targets for 2032, there's a limit to what can be achieved simply through organic growth of the furniture and Hfa businesses. I therefore think it will be necessary to discuss medium- to long-term strategy, taking into account changes in the operating environment.

Could you tell us which themes you think should be addressed as agenda items (or should be extended in scope) going forward?

**Ando:** Overseas regions such as the U.S. and Eastern Asia are far ahead of Japan in terms of integrating online and offline services, and even within Japan itself the barriers to entering other business spheres or industries are lower than they were previously. What's more, companies trying out a variety of different formats have appeared, so there is more competition. In such circumstances, I think that Board of Directors meetings should include descriptions of the latest trends among progressive retail businesses in Japan and overseas, and discuss the theme of potential risks to the Company as a result of taking no countermeasures. And, with regard to SHIMACHU CO., LTD., which became a member of NITORI Group, the theme of how the two companies should merge and generate synergies over the mid to long term should be incorporated into discussions.

**Suzuki:** We need to discuss the course the Company should take in developing its business in order to achieve its mission and vision. I believe that, in addition to discussing the Company's existing formats, we need to discuss its entry into the new formats of apparel, including the business of N Plus Co., Ltd., and restaurants, in the form of the NITORI Dining business. We also need to talk about business development overseas, and in particular the course to be followed when expanding business elsewhere in Asia, including the ASEAN nations.

**Tatsuoka:** I believe there are four themes that should be discussed within a larger framework. The first is overseas strategy. NITORI

(CHINA) HOLDINGS CO., LTD. is in the process of moving on from the current situation, in which it purposely decelerated store openings and paused for a while. In light of what's been learned there, we should discuss the Company's future strategy for other regions as well. The second theme is strengthening existing formats and expanding business areas. In this regard, we should discuss how to approach new business areas such as SHIMACHU CO., LTD.'s home center business and the apparel business of N Plus Co., Ltd., while leveraging the Company's strengths. The third theme requiring discussion is digital transformation (DX). Pursuing more seamless O2O is essential as the next phase for the Company, so we need to discuss what type of measures should be taken to ensure proper CRM (Customer Relationship Management) as a means of enhancing customer satisfaction. The fourth theme is financial strategy; I think that, as the Company undertakes M&A and major investments, it will be necessary to discuss medium- to long-term cash flow.

At the shareholders' meeting two female directors were appointed. Could you tell us how you think the Board of Directors will change with the addition of a female perspective?

**Ando:** Precisely because women account for a large proportion of the Company's customer demographic, I have high expectations that adding a female perspective to the management of the business and hearing their opinions during Board discussions will have a positive effect. What's more, the fact that we now have a female inside director (Hiromi Abiko), will serve as encouragement to many female employees.

**Suzuki:** The appointment of a female employee who started her career at the Company as an inside director is a very significant development. I think it will raise motivation for the Company's female employees. And, as the Company's products comprise numerous household items including furniture, I think that opinions from a female perspective represented in meetings of the Board of Directors certainly will have a positive effect. Not only does Ms. Abiko's appointment increase diversity, I also think it's an appropriate appointment in terms of contributing to the Company's strategy with regard to business formats.

**Tatsuoka:** In addition to benefitting from the perspective of the Company's female customer base, as pointed out by my two colleagues, I expect the Board of Directors' discussions to be enlivened by the addition of the younger generation's perspective. Looking ahead to potential changes in the post-coronavirus world,



**Takaharu Ando**  
Outside Director and Audit and Supervisory Committee Member, NITORI Group

this younger generation (the generation closest to the Company's customer base) will be highly attuned to shifts in consumer preferences. Newly appointed inside director, Ms. Hiromi Abiko is highly insightful and perceptive with regard to human resources development, training, and coordination, while outside

director, Ms. Naoko Yoshizawa offers the same degree of insight and perceptiveness with regard to DX and IT. I therefore expect that these two directors will not only provide a female perspective, but will also bring their respective specialist skills into play.

Could you tell us what perspectives you yourselves adopt when commenting or expressing opinions at Board meetings?

**Ando:** The first perspective I adopt is that of consumers. I'm always trying to ascertain whether the Company is managing to provide products that enable a large number of customers to experience enriched homes. My criterion is whether the Company is continuously providing products that offer new forms of appeal, and when I have time, I go to look at competitors' stores to find out what they are doing with new formats. My second perspective is whether the Company can continue growing into the future, so I'm checking that the Company isn't relying too much on its past successes and showing reluctance to reform. The third is crisis management. Obviously, this involves commenting from a crisis-management perspective when a scandal or something similar occurs, but it also involves constantly thinking about risk across all aspects of corporate management and looking ahead to the future to offer comments intended to prevent risks arising from issues that have not yet become apparent.

**Suzuki:** I believe the Company's lineup of directors is diverse, and I have a high opinion of the Board of Directors, which holds lively discussions and is highly effective. Each individual director provides objective opinions based on his or her own experience and perspectives, and I myself intend to express my opinions from a compliance and governance perspective. The Company is managed by its founder and chairperson, Akio Nitori, and it's his charisma that's enabled it to continue growing. This could potentially create an atmosphere that makes it difficult for inside directors to express disagreement freely. In such circumstances, it's crucial that outside directors can speak freely, and I myself am doing so. In fact, the atmosphere is such that everyone can fully express their opinions to the chairperson as well, and I therefore feel that this is a genuinely effective Board of Directors.

**Tatsuoka:** As my own distinguishing characteristic within the Board of Directors is my experience of working at an economics-related governmental ministry, my contributions to discussions are informed by my past involvement with matters including structural changes in the Japanese economy and industry, corporate governance reform, issues relating to energy and the environment, and trade policy including geopolitical issues relating to Eastern Asian countries. At the same time, I believe that the key to continuously enhancing corporate value—the most important mission for directors—is sustainability. To describe sustainability in my own words, it would be "the capacity to always continue being regarded as essential by consumers, even when the external environment is changing dramatically." I make a point of constantly keeping this perspective in mind. During discussions, I strive for a combination of understanding and vigilance. In addition to trying to fully comprehend the Company's corporate culture and its unique



**Kazuhiro Suzuki**  
Outside Director and Audit and Supervisory Committee Member, NITORI Group

business model integrating manufacturing, distribution, IT, and retail, I pay attention when my own common sense makes me feel uncomfortable about certain matters or developments. I approach my role with the attitude that it's important to maintain a balance between deepening my understanding of the Company and retaining

a degree of vigilance with regard to its management.

### Achieving Sustainable Growth and Enhancing Corporate Value for the Company

Could you tell us your thoughts regarding the risks associated with globalization and entry into markets overseas?

**Ando:** In addition to the time it takes for forays into overseas markets to turn a profit, companies are reluctant to waste the investments they've already made, so many find it difficult to withdraw. To avoid that from happening, I think it would be better to decide in advance the timing for reviews of Company's policies on withdrawing or temporarily pausing. The Company should also make strategic preparations to develop human resources who can work effectively in the global arena, in line with its future plans for entering new markets. And another important thing is to conduct exhaustive local marketing in advance.

**Suzuki:** Although the Company still has scope for growth within Japan, future expansion overseas is unavoidable, and I believe that making inroads in Eastern Asia and the ASEAN nations is particularly important. In Eastern Asia, the Company already has experience of opening stores, so it has accumulated know-how, but in new regions such as the ASEAN nations and Europe, where it hasn't yet opened any stores, it will be important to take full stock of local circumstances, and work out how to deal with them. Such circumstances could include internal affairs, politics and economics, living conditions, and feelings toward Japan. The Company should then devise comprehensive plans for entering each market, including development of distribution networks and IT infrastructure. For example, the key to accelerating store openings in Eastern Asia is human resources development targeting middle-ranking executives, and when opening stores in Europe and the ASEAN nations, it will be difficult to achieve adequate results without first establishing a system for educating human resources, which should include identifying the skills required and developing local employees. When doing business with local suppliers as well, I think the Company needs to gather information about the conditions in each country or region, whilst also taking the SDGs into account.

**Tatsuoka:** When expanding overseas, alongside discussing the policy regarding which regions should be targeted, it's also necessary to consider how to build the Company's brand image

and corporate identity. As long as the Company stays within Asia, it may be enough to simply stick with the current way of doing things, but entry into the European and U.S. markets, where values differ significantly, will necessitate discussion. In addition, standardization and sharing of products leads to increased efficiency, but preferences and markets differ from one region to another, so localization will also be required to some extent. Therefore, it will be necessary to find the right balance between standardization and localization through trial and error. Meanwhile, as everybody's pointing out, the biggest issue is human resources. In particular, as we learned through the Company's experience in Eastern Asia, when embarking on a phase of accelerated store openings, a system is required to prevent a mismatch between the capabilities of the human resources and the store opening plans. And, when expanding into new regions, it's important to have the necessary operating foundation, including standardized infrastructure for IT and operations, so a proper strategy needs to be worked out alongside opening stores. When developing supply chains in each region, it's important to ensure their resilience in light of the risks in each country and region. The Company must make arrangements to monitor supply chains' sensitivity to geopolitical risks and situations systematically and continuously.

Could you tell us your thoughts on creating empowered work environments and promoting diversity from the ESG and SDG perspectives?

**Ando:** To create empowered work environments, the Company needs to implement tangible measures, such as expanding telework by pursuing DX and creating an environment in which employees can use satellite offices, although in essence it's the intangible aspect—people—that's more important. I think that further enhancing the education provided to executives to cultivate respected individuals who can raise the morale of their teams will do more to empower employees than providing the right physical environment.

**Suzuki:** I feel that ESG and SDGs related initiatives initially had a strong air of being responses to external pressure from Europe and the U.S., rather than being something inherently Japanese. Recently, however, the idea that it's normal for companies to engage with ESG and SDGs has become more prevalent. Awareness of ESG and SDGs has grown at the Company too: for instance, it established the Sustainable Development Goals Promotion Office as a new department to play a role within the wider society as a means of contributing as a company. To produce results, however, it's necessary for not only senior management, but all employees, to be ESG and SDGs aware. Moving on to the issue of creating empowered workplaces, the Company's employment of a very large number of part-time



**Tsuneyoshi Tatsuoka**  
Outside Director and Audit and Supervisory Committee Member, NITORI Group

employees requires it to think about their terms of employment and ensure that those terms have been set properly. I think it's important to conduct accurate employee surveys to establish whether part-time employees really do feel empowered, and to follow up by bringing any issues to light and resolving them.

**Tatsuoka:** Ultimately, the Company's greatest asset is its people. What's struck me about the Company's corporate culture is its ethos of striving to achieve targets—even those that appear ambitious—by starting with the target itself and backcasting from there to identify the required actions. I've realized that this ethos is not just empty words, but an approach that has permeated through to every single employee. Meanwhile, the Company, for its part, appears to value its human resources because it invests a considerable amount in people, including sending them to seminars in the U.S. On the issue of creating empowered environments, I believe that employees can maintain their motivation and work energetically if they experience three feelings simultaneously. These are: (1) the feeling of achieving self-fulfillment and personal growth, (2) the feeling of being connected to the Company's business performance and growth, and (3) the feeling of being connected to social contribution by providing enriched lifestyles to people around the world. As the underlying infrastructure is already in place, including the corporate culture and provision for training, I think the Company should seek to make further progress in this regard. Moving on to diversity, it seems to me that the point is not to hold discussions within formalized frames of reference defined by gender and nationality. Instead, surely, what changes the status quo and leads to innovation is the process whereby contact between human beings of various types triggers a chemical reaction. As implied by the saying "two heads are better than one," it's important for people with a variety of attributes and backgrounds to come into contact and react against each other. The Company already appears to have the foundations of a corporate culture that allows employees to constantly interact and produce an effect that was not expected and clash over their approaches, so it just needs to do more to cultivate this culture.

Could you tell us your thoughts on further strengthening the Company's corporate governance?

**Ando:** I have a high opinion of the Company's Board of Directors, which holds very lively discussions, even in comparison with other

companies. To strengthen corporate governance even more, I'd like the standard of the documents provided to the Board of Directors to be further improved. Discussions would be enlivened by eliminating differences in the standard of documents produced by individual departments and concisely summarizing issues for discussion in terms of where they arose, their background, how they were handled, and the efficacy of the measures taken. With regard to important topics for discussion, when there are matters over which opinions are divided at the Internal Board of Directors (the body that deliberates on matters for discussion prior to meetings of the Board of Directors), if the points of contention could be clearly set out for the Board of Directors, the decision-making process up until that point would be easier to understand. Meanwhile, from a risk management perspective, if reports could be made to the Board of Directors not only after incidents have occurred, but whenever there are risks, or signs of risk, relating to any aspect of the company's management over the mid to long term, I think such risks could be averted by receiving useful opinions and comments from outside directors with abundant experience in a wide array of fields.

**Suzuki:** The documents provided to the Board of Directors have improved, and the volume of documents is now at the right level, but I would like even more to be done in this regard. As Mr. Ando said, it's probably necessary to share information about the process of internal decision-making, such as the points of contention when there's disagreement at the Internal Board of Directors. And I'd suggest that topics discussed at Audit and Supervisory Committee meetings should also be reported to the Board of Directors, although not necessarily every time.

**Tatsuoka:** While it's a plus that the skills and perspectives offered by the directors are becoming more diverse, I also see a need to review how deliberations are conducted in future so that discussions don't lose focus as a result of the increased number of Board members compared with a few years ago. For complicated matters, it would be advisable to provide fuller explanations prior to Board meetings, reducing the time spent explaining agenda items during meetings as much as possible, to ensure more time to engage in actual discussion. In order to maximize the benefits of greater diversity, I think we need to avoid running meetings the same way we've always done, and instead embrace further reforms.

