

## Dialogue with the Outside Directors

# Incorporating the Opinions of Outside Directors to Improve Management Capabilities

Olympus' Board of Directors consists of five highly independent outside directors, representing half of the members. The outside directors actively engage with management by participating in various committees and taking part in discussions at meetings of the Board of Directors. We asked outside directors Sumitaka Fujita and Keiko Unotoro about their activities and were pleased to receive their opinions on the issues Olympus will need to address in the future.



Outside Director  
(Chairman of Compensation Committee)

## Sumitaka Fujita

### Duties in Committees and Future Goals

**We are raising internal compliance awareness and introducing long-term incentives into corporate officer compensation systems.**

**Unotoro:** I am a member of the Compliance Committee, which consists of myself, another outside director, an outside lawyer, and the Chief Compliance Officer (CCO). Olympus' current compliance systems and frameworks, which include such aspects as the CCO, whistle-blowing systems, and Global Compliance Committees, were forged through discussions among the Compliance Committee. With these systems in place, this committee's main duty is to monitor them to make sure they continue to function effectively. Moreover, the Compliance Committee is tasked with preventing compliance issues from occurring, and this requires us to be able to judge what situations may give rise to such issues. It is for this reason that an outside lawyer has been appointed to this committee alongside the outside directors. Initiatives to be pursued in the future include evaluating compliance activities through employee awareness surveys, self-assessments, and other means, and then instituting improvements based on the findings.

**Fujita:** I chair the Compensation Committee. The role of this committee is exactly as I described it in my comment in *Annual Report 2013*—to create compensation systems that give corporate officers additional incentive to pursue further improvements in corporate value. As one facet of these efforts, we took steps to increase the amount of officer compensation linked to performance in comparison to fixed compensation.

To this end, we introduced stock options as well as short-term incentives that reflect one year's performance. In the future, I hope to develop a system that provides long-term incentives in reflection of progress toward medium- to long-term management targets.

### Operation of the Board of Directors

**All outside directors are putting forth their expertise in discussions. We need to consider delegating more authority to the Executive Management Committee.**

**Unotoro:** At meetings of the Board of Directors, all of the outside directors discuss the items placed on the table based on their differing areas of expertise and diverse perspectives. With all participants actively bringing up issues that may have been overlooked by the Executive Management Committee or that relate to underlying policies, these discussions have an intense yet engaging atmosphere, ensuring that decisions are made only after thorough examination.

**Fujita:** In terms of structure, Olympus has established an effective corporate governance system. However, whether or not this system is truly able to function effectively is dependent upon not only the Board of Directors and the Executive Management Committee. To ensure this effectiveness, the corporate divisions that support these organizations must acquire specialized work abilities to strengthen their overall management capabilities. Olympus has always faced issues with this regard, but I feel that improvements have been made to this end.

**Unotoro:** Apparently, outside directors had been requesting improvements in this area since even before I received my chair on the Board of Directors. It was based on these requests, I feel, that we are now receiving very complete explanations of meeting agendas. So long as management maintains its constructive approach toward the feedback of outside directors, seeing us as fellow contributors rather than possible nuisances, I am certain that Olympus will become an even better company.

**Fujita:** Ms. Unotoro brings up a very important point. It is pointless to simply appoint outside directors as a formulaic matter; a company must have the desire to incorporate the opinions of these outside directors for the betterment of management. Olympus arrived at the current corporate governance system

by reflecting on past scandals, and I therefore feel that there is little worry of management falling into this trap. Nonetheless, we must always be careful not to render this system ineffectual.

Changing subjects, another important issue to be considered in the future is to what extent the Board of Directors can delegate matters related to daily management to the Executive Management Committee. When the new management team was instituted three years ago, it was necessary for these matters to be presented to the Board whenever possible. Today, however, I feel that the Board of Directors needs to consider increasing the amount of decisions delegated to the Executive Management Committee.

Outside Director  
(Member of Compliance Committee)

**Keiko Unotoro**



### Response to Japan's Corporate Governance Code Olympus will steadily implement all of the code's principles based on its Basic Policy for Corporate Governance.

**Unotoro:** We outside directors played an active role in preparing the Company's response to Japan's Corporate Governance Code, carefully checking over all details of related disclosure materials. Through swift preparation, Olympus was able to announce its response—the Basic Policy for Corporate Governance—on the day of the annual general meeting of shareholders held in June 2015. This was due in no small part to outside directors recommending that Olympus disclose its policies in relation to the Corporate Governance Code before other companies.

**Fujita:** I suspect that many companies probably began readying their responses during the six-month grace period after their annual general meeting of shareholders. On the other hand, Olympus, after instituting the new management team three years ago, went about constructing its corporate governance system while considering all the principles that would eventually be included in the code. For this reason, corporate governance awareness is very well entrenched within the Company. The Basic Policy for Corporate Governance was formulated based on the content of the Corporate Governance Code. I believe that Olympus' ability to create this policy in such a short period of time is a testament to the hard work of the management team to date.

**Unotoro:** Olympus announced that it will adhere to all of the principles of the code. Now, all that is left is to steadily push forward with this plan.

### Future Issues for Olympus

To maintain growth capacity over the long term, Olympus will need to enhance its overall capabilities by cultivating new businesses and strengthening head office functions.

**Unotoro:** The presence of women in management is still quite low, and Olympus needs to address the issue of empowering female employees. I sometimes speak with women working at Olympus. Based on these interactions, I have come to feel that while the Company has a wide assortment of systems to help with work-life balance as well as the raising of children, there is still a need for more substantial systems to support their career development.

Another issue Olympus must address is cultivating new businesses. While the Company's Medical Business is incredibly strong in the gastrointestinal endoscope field, there is no guarantee that it will be able to maintain this strength over the long term. If Olympus is to continue growing over the next 10 or 20 years, it is absolutely essential for the Company to steadily nurture new businesses with the potential to become pillars supporting its future operations.

**Fujita:** The competitiveness of the Medical Business is clearly apparent if you look at R&D or manufacturing sites. Conversely, Olympus has issues in terms of corporate functions. I feel that more resources should be devoted to strengthening these functions as this would enhance the Company's overall management capabilities, which in turn would help further grow the Medical Business as well as other business segments.