

# Evolution of Corporate Governance

Four directors look back on the last two years of implementing *Transform Olympus* and our corporate strategy and discuss the future of corporate governance at Olympus.



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Outside Director (Chairman of the Audit Committee)



Jimmy C. Beasley

Outside Director (Member of the Compensation Committee)

## Execution and Monitoring of *Transform Olympus* and Our Corporate Strategy Are Progressing

**Takeuchi:** Corporate governance is a combination of executive team leadership and the execution, as well as the Board of Directors' abilities to supervise and lead. In June 2019, we changed our governance structure to a company with Nominating

Committee, etc. I believe that clarifying the roles of directors and executive officers through this structure has contributed to the continuing enhancement of our corporate governance. Moreover, I feel teamwork among executives has improved and has been functioning particularly well in the last two years as we have gained a greater shared awareness and united our efforts toward achieving *Transform Olympus*.

**Fujita:** I participate as an observer in the Group Executive Committee (GEC) as the Chairman of the Board of Directors. My impression of the executive team's ability to execute has steadily improved, and discussions in the GEC have become even more productive and active over the past two years since 2019. The changes to the composition of the Board of Directors and GEC, leaves no doubt that we are becoming more global. I



**Strengthening corporate governance through increased communication between the executive team and the Board.”**

Yasuo Takeuchi

think we can all agree that *Transform Olympus* and our corporate strategy are progressing steadily overall.

**Masuda:** We are growing into a leading global medtech company and steadily executing our strategy in line with Our Purpose of making people’s lives healthier, safer and more fulfilling, and an important factor has been our effective communications, both internally and externally. Moreover, I believe we have made steady and rapid progress with our transformation to ensure our sustainable growth as a global medtech company by focusing on the Medical Business, establishing a foundation for the global business, strengthening and improving efficiency of R&D, and undertaking M&A.

**Fujita:** In a governance structure of a company with a Nominating Committee, etc., the roles of the executive team and Board of Directors are clearly defined: the executive team readily executes management decisions, while the Board of Directors strengthens monitoring capabilities. It is important to always be aware of the matters the Board of Directors should be discussing under their respective role. Aside from regular quarterly meetings for outside directors, we also hold—after each Board of Directors’ meeting—executive sessions where only outside directors participate and exchange opinions. I believe this is a unique initiative from a monitoring

perspective. These sessions lead to insightful and proper discussions and help uncover issues from the Board of Directors’ meeting, which are then fed back to the executive team.

**Beasley:** There is a virtuous cycle of feedback between the executive team and the Board of Directors at Olympus, and I believe this process is very effective. While the executive team regularly reports key initiatives and performance indicators to the Board, other opportunities are in place for sharing more detailed information when the need arises. I believe the Board is able to grasp important issues extremely well thanks to the depth of communication between directors and the executive team.

**Vision of Olympus as a Global Medtech Company Can Now Be Seen**

**Fujita:** As we continue growing into a global medtech company, an important medium- to long-term challenge is what kind of corporate vision we will aim for. To this end, our current corporate strategy was launched in 2019, and based on the progress and evaluation of that strategy, an enhanced Medical Business strategy—planning for a launch in December 2021—is currently being discussed by the Board of Directors.

**Masuda:** One aspect of the Medical

Business strategy I am anticipating the most is how Olympus will provide even greater value to patients. Traditionally, Olympus has been a technology-oriented company with self-sufficient R&D and technological innovation. However, I believe a future challenge will be how we can maximize value provided through a patient’s journey from diagnosis and treatment to recovery. To this end, it is necessary to collaborate among R&D and various internal functions, form alliances with other companies, and conduct M&A.

Additionally, sustainability perspectives should be introduced in discussions regarding the Medical Business strategy. Access to healthcare has been a significant issue across the industry, with many companies working toward solving this challenge. At Olympus, we have identified “Healthcare access and outcomes” as one of our materiality items; I would like to explore how we can overcome the difficult challenge of making healthcare accessible to people, who are unable to access necessary medical care and treatment for various reasons.

**Beasley:** While Olympus has achieved numerous innovations in the past, currently management is focusing on strengthening our development pipeline toward our next innovations, improving efficiency of R&D operations, and securing the talent to achieve

these objectives. Additionally, it is vital to promote a corporate culture that fosters innovation and strengthens teamwork of initiatives that span across functions. Our future will be extremely bright if every employee across all functions cooperates to achieve our targets—not only engineers but employees in marketing, R&D, regulatory affairs, quality assurance, and manufacturing, etc.

**Takeuchi:** Until now our core strategy has revolved around how to best integrate our core technologies in the Medical Business. Going forward, I believe we will also need to address the key challenge of how we can best provide value across a patient’s journey and to expand our strengths.

As a medtech company, we must firmly establish a corporate culture which looks beyond the present and continuously takes on challenges. I recognize that this goes beyond transforming our business model, and further toward committing to becoming a healthy organization, consisting of diverse global employees which fosters a corporate culture where employees can maximize their potential.

**Achieving a Compensation System Aligned with Our Corporate Vision**

**Takeuchi:** Compensation systems can be very difficult to consider as they can

easily cause inconsistencies when they do not match the particular situation of a company, even when something like a model is adopted. However, I feel over the last two years, mutual understanding between the executive team and the Compensation Committee has deepened through active communication, and the compensation system has improved with respect to meeting our corporate strategy and aligning with the direction Olympus is moving in.

**Beasley:** While last year we faced the unprecedented COVID-19 pandemic, Olympus management worked to build strong and secure management foundations, even amid an extremely uncertain operating environment. In fiscal year 2021, the Compensation Committee considered compensation for the management team that responded rapidly and appropriately to the pandemic and discussed revising the compensation system in light of the impacts of the COVID-19 pandemic on the business environment. In addition, beginning fiscal year 2021, we included ESG perspectives into the long-term incentive compensation based on the corporate strategy. Our compensation system places emphasis on long-term incentive compensation and includes relative evaluations such as Total Shareholder Return (TSR). Our goal is to create a compensation system that

takes every stakeholder into consideration. I think a future challenge is how to design an attractive compensation system that will enable Olympus to secure outstanding global talent. In years to come, I believe Olympus and the Compensation Committee must aim to develop a global standard compensation framework that is attractive in any country in order to evolve the compensation system.

**Masuda:** I was a member of the Compensation Committee up until June 2021. I believe in the importance of raising the proportion of performance-linked compensation to reward executives who achieve results when executing our corporate strategy in line with Our Purpose, and we have promoted this. Compensation will remain an important challenge for the future. With regards to ESG, while we currently utilize the world’s leading ESG investment index, the Dow Jones Sustainability Index (DJSI), as evaluation criteria for our performance-linked stock compensation, I believe we need to aim for a compensation system more grounded in our actual management conditions, and we have had many discussions about future possibilities including setting evaluation indices unique to Olympus.

**Fujita:** Our Compensation Committee makes changes and improvements every year in response to various



**Enhancing corporate value by strengthening our dialogue and information disclosure with shareholders and investors.”**

Sumitaka Fujita

issues, and accordingly, I think our compensation system will continue its evolution. In addition to the opinions of everyone present, from my perspective, other issues related to executive compensation include enhancing related information disclosure and designing an attractive compensation system that enables Olympus to secure outstanding talent necessary for becoming a global medtech company. I expect the committee to continue to take a lead in deepening the discussion and finding solutions for issues going forward.

**The Nominating Committee that has Built a Strong Executive Team**

**Fujita:** The Nominating Committee is an important institution that evaluates and nominates the directors and executive officers who manage Olympus. Every year, the committee first evaluates directors and executive officers and then reviews criteria toward the next nomination. An extremely important task for the Nominating Committee is the evaluation of the executive officers, as well as the discussion of the succession plan and the future composition of executive team members. This is a significant task because the execution of management

comes down to the executive team. Therefore, we place considerable emphasis on the succession plan for executive officers. Also, regarding the future composition of the Board of Directors, we identify issues and conduct skills matrix analysis to evaluate the composition in line with the direction of the Company. **Masuda:** I feel positively that the development of the succession plan and implementation of a global leadership talent review by the Nominating Committee is progressing under the leadership of Mr. Takeuchi. **Takeuchi:** To create an executive team that can exert leadership in transforming Olympus, I participate as a member of the Nominating Committee. For several years, we have been developing a skills matrix—disclosed in May 2021—to determine the composition of the Board of Directors. However, I think this skills matrix still has room for improvement. The Nominating Committee is progressing with the succession plan and a diverse range of criteria has been added for evaluating executive officers. Currently, the Nominating Committee is still not at the stage of ongoing evaluations for talent who are anticipated to lead Olympus in the future. I feel that this will be our next step. **Beasley:** Over the past few years of interacting with each executive officer,

I have gained a sense that Olympus, and the Nominating Committee in particular, have built a strong executive team. I agree with the comment by Mr. Takeuchi on the importance of considering the succession plan. In the future, I feel cooperation and collaboration between the Nominating Committee and Compensation Committee will become even more important for further development of the succession plan.

**Continuously Improving the Effectiveness of the Board of Directors**

**Fujita:** There is significant meaning in implementing the evaluation of effectiveness of the Board of Directors while improving existing methods every year and sharing issues with the entire Board. This means, evaluating the improvements of the issues identified in the previous fiscal year and, with the next year in mind, following new issues identified in the evaluation of the current fiscal year. We also include external expertise to evaluate the Board of Directors' effectiveness, identify issues and conduct objective analysis that are very close to externally facilitated Board evaluation by third party. **Masuda:** The evaluation of effectiveness of the Board of Directors in fiscal year 2021 started with



**Continuing to advance Olympus through a virtuous cycle of feedback between the executive team and the Board of Directors.”**

Jimmy C. Beasley

discussions in two subcommittees, continued into larger discussions, and finally concluded with discussions with the Board of Directors regarding the results of the analysis and issues of concern. The process itself was important, as mutual understanding deepened between directors and executive officers during the discussion process. We gained a shared understanding of the management issues and business environment, which was beneficial for subsequent discussions.

**Takeuchi:** The aim of strengthening corporate governance is to ensure sustainable growth into the future. To improve the effectiveness of the Board of Directors, we must work continually. The evaluation of effectiveness is an ongoing process and involves trial and error; over the years, we have tried numerous approaches and focused on securing future sustainable growth, and, as a result, I feel we have improved the effectiveness of the Board of Directors.

**Beasley:** The Board of Directors is becoming even more diverse; we have added a female outside director in June 2021. Mr. Takeuchi has said that an ongoing evaluation process is necessary for the Board of Directors. We must continuously strengthen corporate governance so we can adapt to changes in our operating environment amid increasing new

management challenges and evolve our business.

**Enhancing Dialogue with Shareholders and Investors**

**Beasley:** We receive regular reports from the Board of Directors on dialogue with shareholders and investors, conducted primarily by the executive team. I think this is particularly important for grasping matters of importance and is useful for understanding the opinions and perspectives of shareholders and investors.

**Masuda:** I believe Olympus is proactively progressing its dialogue with shareholders and investors and is receiving a certain level of recognition from both inside and outside of the Company, and I think we need to continue strengthening dialogue in the years to come. In terms of what we need to strengthen, I feel it is important to disclose deeper information in the future, particularly strategic information and qualitative information, such as the status regarding progress on important management projects, R&D activities, and development pipelines. **Fujita:** I believe the executive team at Olympus has undertaken regular and timely dialogue with shareholders and investors. I also think that reporting and sharing the content of discussions by our executive team, including

opinions and perspectives, within the Board of Directors is very positive. I also think it would be beneficial and worth looking into providing outside directors with opportunities for direct dialogue with shareholders and investors.

**Takeuchi:** It has been about 10 years since I started undertaking dialogue with shareholders and investors, and, of course, the information required has changed based on the situation Olympus was facing at the time. A recent challenge has been ensuring that our information disclosure—including methods and posture of dialogue—is appropriate for a company aiming to become a global medtech company. With this in mind, I would like to continue working on enhancing information disclosure and undertaking constructive dialogue with all our shareholders and investors.



**Supporting the execution of our corporate strategy from a sustainability perspective and in line with Our Purpose.”**

Yasumasa Masuda

