Interview with NSK’s Outside Directors

NSK has been working on strengthening corporate governance since 1999. However, the governance that shareholders and investors expect has changed since the establishment of Japan’s Corporate Governance Code in 2015.

NSK has adopted a Company with Three Committees system as its form of corporate organization. In this report, we asked the outside directors who are the chairpersons of the three committees to talk about the role of outside directors, the operational status of the Board of Directors and committees, and the issues that NSK faces.

Q1: What do you think is expected of you as an NSK outside director?

Mr. Ikeda: I believe that an important point in the Corporate Governance Code is that outside directors are to appropriately represent the views of minority shareholders and other stakeholders in the boardroom from a standpoint independent of the management and controlling shareholders.” I am conscious that the role required of outside directors is that of a monitoring function in which we supervise the management of the Company and assess progress on management plans, acting as a spokesperson for the diverse range of shareholders and other stakeholders.

Accordingly, I keep two points in mind. The first is to understand the actual situation of the Company from an external viewpoint. I have been doing this for four years, and I make an effort to visit plants, sales sites, technology development centers, and other locations inside and outside of Japan to hold discussions with employees on site and learn about the actual circumstances of the Company to the best of my ability. The second point is to ask questions and share my opinions in Board of Directors meetings, committee meetings, and other meetings, always being conscious of maintaining an external point of view. I state my opinions and ask questions being mindful to keep a balanced partnership with upper management that is based on a healthy tension and mutual trust.

Mr. Bada: I was appointed as an NSK outside director just last year. Outside directors are required to work to understand meeting discussion items as comprehensively as possible and engage in the dialogue, even if they have no practical experience with the topic. Furthermore, it is necessary for outside directors to state their opinions as a third party based on their own experience.

NSK has adopted a Company with Three Committees structure, and has five outside directors at present, each of whom comes from a different parent organization. I believe that it is extremely beneficial that we have differing fields of expertise and have led different careers up until now. The backbone of my experience lies in the manufacturing industry and engineering, as well as corporate management. I feel that my role is to use that experience to make suggestions and provide guidance from my unique perspective.

Teruhiko Ikeda
Outside Director,
Independent Director
Advisor of Mizuho Trust & Banking Co., Ltd.

Hajime Bada
Outside Director,
Independent Director
Honorary Advisor of JFE Holdings, Inc.
Outside Director of Mitsui Chemicals, Inc.
External Auditor of Asagami Corporation

Akemi Mochizuki
Outside Director,
Independent Director
Certified Public Accountant
Employee of Akahoshi Audit Corporation
Outside Director of Tsumura & Co.
As a Certified Public Accountant, my career has been focused in financial auditing. I think I have accumulated knowledge of corporations and developed my ability to understand a company’s situation through studying the figures in financial statements and the status of internal controls over the years. I believe that kind of valuable experience and perspective is expected of an outside director.

I have seen all sorts of companies, but this is actually my first time with a component manufacturer like NSK. To be honest, the impression I was left with after this year is how different a company is when you are looking at it from the inside as opposed to the outside. Moving forward, I would like to gain a little more understanding of internal activities and thought processes, and delve in even deeper while still maintaining an outside perspective to make contributions that prevent issues from arising within the company itself, or from changes in the environment that surrounds it.

NSK has long adopted a Company with Three Committees governance structure. What are some of the strengths of this structure, and what should be improved?

Mr. Ikeda

NSK introduced the executive officer system in 1999. At that time, the Company invited directors from outside the company onto its board, and voluntarily established the Compensation Committee. I believe NSK is a cutting-edge Japanese company that is highly conscious of corporate governance reform, having adopted a Company with Three Committees structure in 2004. Nevertheless, I think that NSK still has challenges left to face. The Board of Directors has both a management and a monitoring function, and despite having adopted a Company with Three Committees structure, NSK’s approach is to place an importance on the management function in order for the Board of Directors to operate effectively. Accordingly, the heads of functional division headquarters and business division headquarters are on the Board. However, if NSK is to further strengthen the monitoring function of the Board of Directors moving forward, I think that the structure, namely the ratio of internal to outside directors, as well as the qualifications and expertise required of those directors, will have to change. Furthermore, the CEO is currently acting as the chairperson of the Board of Directors, which will also present a challenge.

One thing that I have felt particularly strongly about this year has been the challenges related to global governance. Although I believe that this is a weak point for many Japanese companies, a company’s approach to the foreign market is extremely important. To that effect, I think that NSK still has underdeveloped areas in employee development and personnel distribution, as well as the systems and processes necessary to exercise control globally across all Group companies. NSK has to shift its focus globally while revising its current structures, systems, and processes. However, I think it is also necessary to focus on personnel training and development to increase everyone’s level of experience.

Concerning the effectiveness of the Board of Directors, it has been mentioned that a monitoring and checking function is needed. Please comment on how information is communicated and how items are discussed in Board of Directors meetings.

Mr. Ikeda

Explanations of the current situation of the Company given prior to Board of Directors meetings and each committee meeting are carried out very thoroughly. I have experience as an outside director and outside auditor with a number of companies, but communication at NSK has been the most thorough and detailed. In addition, opportunities are also created for the Board to visit plants and other locations in order to learn about the actual circumstances of business operations. I have been to the majority of NSK plants in Japan, as well as plants, sales
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Mr. Bada

I also think that we receive sufficient information. In my one year as an outside director, I have felt that the variance analysis of results against the annual plan, as well as discussions on course correcting, have been conducted with considerable depth. Strictly speaking about this one year, I feel that there were few discussions on acquisition projects, large-scale CAPEX projects, and future research and development projects. I think that we need to increase such discussions related to the future direction of the Company.

It is necessary to begin discussions on large-scale projects and long-term technology development early on and develop them because they take a long period of three to five years from launch to completion. I would also like to further expand discussions on whether NSK’s investment in management resources concerning research and development is appropriate compared to its competitors, and what kind of resources are necessary moving forward.

Since I was originally engaged in financial auditing, I often request site visits as a member of the Audit Committee. I am able to go to regional subsidiaries and plants when I can work it into my schedule, but I would like to have more in-depth interactions and discussions with employees on the shop floor.

Although we have active discussions in Board of Directors meetings, I think that there is a common pattern in which the internal directors end up having to give a lot of explanations in response to questions from the outside directors. I want to know what kind of discussions the people actually carrying out the work at actual business sites are having, and to what extent discussion takes place internally prior to something being raised as an item to be discussed or reported in Board of Directors meetings.

Ms. Mochizuki

The backbone of my experience lies in the manufacturing industry and engineering, as well as corporate management. I feel that my role is to use that experience to make suggestions and provide guidance from my unique perspective.

Q4 Please tell us about the activities being carried out by the three committees.

Mr. Bada

An outside director has been appointed as the chairperson of the Nomination Committee, which had been a role taken on by the company president since last year. The key task among the duties of the Nomination Committee is to select the next company president and directors. In addition to selection, discussions are held on what kind of training and development should be carried out for candidates. Education and training are conducted systematically over a long period of approximately 10 years.

Although outside directors can carry out individual performance evaluations and career path monitoring, I think it is difficult for us to judge an individual’s qualifications or eligibility for a position. I think that these are points to be thoroughly examined and judged internally, particularly by the Company president. I think that the validity of the selection process, appropriateness of training, and equality of opportunity should be carefully discussed in the Nomination Committee.

The appointment and compensation of senior management is said to be the most critical governance function. I have been acting as the Chairperson of the Compensation Committee for the past four years, and launched a review of the executive compensation program from the first year of my appointment. Three years ago, we did away with retirement benefits and stock options, and introduced a stock compensation program, which is quite early on for a Japanese company. Last fiscal year, in addition to further enhancing the correlation between performance and compensation, we reviewed the compensation program to incorporate ESG metrics so that incentives are more effective from this fiscal year. For example, CO2 emissions reduction targets by fiscal year and various safety indicators are used as ESG metrics when evaluating performance. Although NSK was already pushing forward with ESG initiatives, we set KPIs and began linking officers’ compensation to these to further accelerate our efforts.

The Audit Committee has a full-time non-executive director, which sets it apart from the other two committees. In addition, the committee is supported by the Internal Audit Department and receives monthly reports on the status of internal risks and issues that arise. We have meetings with members of the Internal Audit Department twice a month to share and discuss information. I don’t know about other companies, but these meetings are quite frequent and productive.

Concerning risk management, the Audit Committee receives information on risks earlier than other committees, so a mechanism to share that information with other directors may be necessary.
Q5

In looking toward the next 100 years, what efforts would you like to see NSK undertake in areas such as business growth and its contribution to society?

Mr. Ikeda

100 years ago, NSK began as the first domestic producer of bearings, and its progress on developing bearings and other technology in related fields is what has brought NSK to where it is today. I do not think that will fundamentally change. Perhaps moving forward NSK will develop new business areas. To do so, further cultivation of open innovation is essential.

NSK has actively pursued open innovation up until now, but there is a need to accelerate these efforts. People who can make that happen are vital. Personnel development is crucial, and I think that when setting one’s sights on the next 100 years, the key is how to be a company that amasses skilled and capable personnel, or how to develop such personnel. NSK should focus its efforts on hiring and developing resources that have foresight, a mind for innovation, and the potential for growth.

Mr. Bada

Nobody knows what it will be like 100 years from now, but we can be certain that the world will change significantly. Digital innovation such as AI and 5G has already begun, and there is a possibility that the business environment, the social structure, and social norms will change substantially along with it. Society and the corporate world will be required to anticipate those changes, and creating new products will become even more important than before in the manufacturing industry.

Accordingly, open innovation and M&A are vital. To expand business areas and develop new products ahead of competitors, M&A and collaboration with appropriate partners based on a careful selection process is necessary, rather than going it alone.

I believe that diversity in human resources is also crucial. It is not simply about race and gender, but the Company must also be tolerant of diversity in ways of thinking. As such, I think that the relationship between individuals and the Company will have to change into something a little more different than the family-like relationship that has existed until now.

Ms. Mochizuki

Shifting perspectives, component manufacturers unfortunately find themselves in an extremely unobtrusive position. But we should not get caught up on that. If NSK becomes a company that is recognized as offering value to the world through its bearings, I think that the Company will change from being in the spotlight. Good people will take an interest, and better human resources will be attracted to the Company. I would like the Company to be more open and let the world know what NSK stands for, so that people will think of it as an excellent company.

Q6

Please give us some final comments.

Mr. Bada

In this interview I deliberately emphasized NSK’s weaknesses, but I do believe that it is a good company. When asked what makes for a good company, I have always answered: a company whose employees would want their children to join it. I would like NSK to become a company that is loved throughout the world by its employees and customers.

This is directed at NSK employees, but I believe that NSK is very earnest company. When going around business sites and holding discussions with employees, I am impressed that there are so many sincere people working diligently. However, in this rapidly changing generation, that is not enough. I would like NSK to focus more on the outside environment. If NSK does not abandon its way of thinking with internal logic and maintaining the status quo, it will not have a place in a time of such dramatic environmental changes. I would like each individual to consciously work to improve themselves and pay attention to what is going on outside the Company.

I have learned so many things being an outside director at NSK, and I feel that it has been an extremely positive experience in my career. I would be happy if the world were to admire NSK. For that to happen, it would be beneficial for employees to set their vision beyond the confines of the Company and be more open.

Ms. Mochizuki

I believe that the experience and view of a Certified Public Accountant is expected of an outside director. I would like to delve in even deeper while still maintaining an outside perspective to make contributions that prevent issues from arising within the company itself, or from changes in the environment that surrounds it.