

# Interview with NSK's Outside Directors



## Hajime Bada

Outside Director, Independent Director,  
Chair of the Nomination Committee

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

## Akemi Mochizuki

Outside Director, Independent Director,  
Chair of the Audit Committee

Certified Public Accountant,  
Partner of Akahoshi Audit Corporation,  
Outside Director of Tsumura & Co.,  
Outside Corporate Auditor of Asahi  
Kasei Corporation

## Mitsuhiro Nagahama

Outside Director, Independent Director,  
Chair of the Compensation Committee

Outside Audit & Supervisory Board  
Member of Kuraray Co., Ltd.,  
Outside Director of Azbil Corporation

NSK has adopted a “Company with Three Committees” system as its organizational design and is engaged in efforts to enhance its corporate governance system to increase sustainable growth and mid- to long-term corporate value. In fiscal 2020, the Company restructured its Board of Directors to include a majority of outside directors.

We asked outside directors Hajime Bada, Akemi Mochizuki, and Mitsuhiro Nagahama for their thoughts on corporate governance at NSK.

**Q1** Mr. Bada and Ms. Mochizuki, you have both served as outside directors of NSK for three years now. Can you tell us how NSK has changed over this period and what challenges you see that still need to be addressed?

### Mr. Bada

NSK is a “Company with Three Committees” and has adopted a governance system that separates execution from supervision. Looking at two major changes, the Board of Directors transitioned to a monitoring function from the previous fiscal year, which by association has led to the significant delegation of authority to executive officers. In addition, there has been a rejuvenation in the makeup of officers, including the appointment of a new president.

Furthermore, with this change in the Board of Directors’ role, steps have been taken to review the time allocated for meetings. As a result, discussions on future direction, large-scale capital investment, and future research and development

are held on a strategic basis.

As far as future issues are concerned, employee engagement surveys indicate a gap in perception of certain topics between employees at manufacturing sites and Group companies and those at the Company’s headquarters that needs to be addressed to strengthen corporate governance.

### Ms. Mochizuki

The impression I had when first taking office—that NSK was steady, serious, and earnest in its approach to manufacturing—remains unchanged. One of the most visible changes is the increase in female executives. In this, I see considerable potential for further improvements from the perspective of human resource diversification. Effective from the current fiscal year, steps have been taken to look outside the executive function when appointing the chair of the Board of Directors. In this sense, efforts to strengthen the Board’s monitoring function are evident.

With respect to future challenges, I believe it is important for NSK to become more free-thinking, less rigid, and more

flexible. This will allow employees to increasingly enjoy work, which in turn will help spur growth.

## Q2 Mr. Nagahama, it is now one year since you first took office. What do you think is expected of you as an NSK outside director?

### Mr. Nagahama

Following a recent amendment to Japan's Corporate Governance Code, greater emphasis has been placed on the appointment of outside directors who possess experience in corporate management. On this point, the corporate management expertise of NSK's outside directors is a major characteristic of the Board's composition. Except for Ms. Mochizuki, who is a specialist in accounting and taxation, all the Company's outside directors have experience in corporate management. As the only person with a financial sector background, I believe that my role is to contribute from the perspective of finance and capital markets as opposed to general management.

Discussions at Board of Directors' meetings are free and open. A lot of time is spent on future strategies with in-depth discussions. Considering its monitoring function, the Board oversees the duties of executive officers. As an outside director, I am working to acquire more information and knowledge in related fields to add value to the Board's discussions.

## Q3 How is the expertise and experience of the five outside directors being utilized in the context of NSK's governance and the effectiveness of the Board of Directors? Also, what specialized expertise, if any, is needed in the future?

### Mr. Bada

This is the first time for me to serve on a Board where outside directors are in the majority, and I am finding it an interesting experience. I think it is important to see how information on the execution of business is brought to a Board that is mainly composed of outside directors. This is an issue that cannot be determined by rules alone. Information must be sorted in accordance with the culture of the company and past performance. In my three years of experience here at NSK, I can say that the Company has done a good job in this regard. For example, the Board is immediately advised when an employee is infected with COVID-19. While this is not necessarily information that needs to be conveyed to outside directors, I believe there is considerable merit in staying on top of trends regarding the pandemic. It is unfortunate that COVID-19 has restricted people's movement and prevented us from visiting plants and the Group's overseas bases. It is important for us to maintain a direct link to local information, which cannot be achieved through remote meetings. With this notable exception,

I believe that the information provided to management is both accurate and precise. I would assert that this is essential for a board of directors that consists mainly of outside directors and that NSK has cleared this prerequisite.

One other key element is how to connect the Board of Directors with the executive function. With the power to veto a project or transaction, a board with a majority of outside directors bears a heavy responsibility. It is vital that outside directors are aware of this responsibility and engage in discussions and make decisions accordingly.

Meanwhile, there are other issues that need to be considered and addressed. From the previous fiscal year, the Board of Directors has begun to hold strategic discussions on the Company's long-term policy goals and R&D themes. As a matter of course, NSK's mid-term management policy is resolved by the Board of Directors. Accordingly, outside directors must address this important decision responsibly. As such, outside directors must take all necessary steps to study and improve their knowledge of the industry in which NSK operates and the directions taken by competitors to engage in fruitful deliberations. Of the Company's five outside directors, one or two are replaced each year. As a result, it is difficult for newly appointed outside directors to grasp the whole picture in the first year. When discussing strategy, we need to have a system in place so that outside directors, especially in their first or second year, can catch up. Without such a system, it will be difficult for every member of the Board to fully participate in deliberations.

### Ms. Mochizuki

Excluding myself, all the outside directors on NSK's Board have served as top executives at major companies. They have a wealth of experience and the ability to look ahead to see how matters should be managed and what problems might arise in certain cases. From a variety of perspectives, the Board continues to function extremely well. In addition to creating a forum that is conducive to the lively exchange of opinions, the Board has put in place an environment where these opinions can be well received throughout the Company. Steps have also been taken to better



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organize the many items that were previously placed on the Board's agenda. Meetings are shorter than when I first took office, and we can now delve more deeply into the essence of each issue and discuss them in a concise manner. In this regard, I believe that NSK maintains a highly sophisticated Board of Directors.

As Mr. Bada mentioned, it is extremely important that information is relayed in an appropriate manner for outside directors to properly fulfill their role. While I am still in the process of figuring out how information should be conveyed, and how best to gather data, other outside directors with management experience are extremely adept at both.

As for the expertise needed in the future, I believe that the experience and skills inherent in NSK's current Board are more than sufficient to examine and deliberate on a variety of matters. Having said this, I suspect that if engineers and research scholars were to join the Board, NSK would be able to take on a host of new challenges.

#### Mr. Nagahama

The point made by Mr. Bada is an extremely important one. Given the 5:4 composition of NSK's current Board, the majority held by outside directors is extremely thin. Arguably, the burden that falls on this single director difference is extremely heavy. Considering the Board's primary monitoring function, it is vital that we obtain accurate information in a timely manner to make important decisions appropriately. Of course, we receive reports on important matters from executives throughout the Company in a timely and appropriate manner. I dare say, however, the potential still exists for information to fall between the cracks. Based solely on a healthy suspicion and a modicum of doubt, this is a difficult point to fully address as an outside director. Although it might sound like a bit of a cliché, I believe that the proper and timely receipt of accurate information is underpinned by NSK's unique corporate culture and climate nurtured over a long period. NSK's corporate culture of "dependability, honesty, and integrity" that runs throughout all levels of the organization,

including executive officers, employees, and affiliated company staff, is an extremely valuable asset. I am grateful to be able to fulfill my mission as an outside director based on an unwavering trust in this culture.

Looking at the expertise required of outside directors, NSK's current complement includes former executives from a wide range of industries. This enables the Board to point out and deliberate on issues from a variety of angles. Nevertheless, I think there is still some expertise that would benefit the Company. But I recognize that covering every base is unrealistic. I believe it is important to maintain a framework in which a limited number of outside directors can map out a path for NSK's future, while maintaining a balance in their composition, and provide appropriate advice on how to best navigate the external environment. In that light, I feel the current composition is ideal.

### Q4 What did the Nomination Committee focus on in the lead-up to the change in president this fiscal year? Also, what are the Compensation Committee's thoughts on the current compensation system?

#### Mr. Bada

The first major task for the Nomination Committee is to determine the Board's composition. Defining the function of the Board of Directors is critical in securing a majority of outside directors. As such, discussions were held with executive officers over the previous two fiscal years, which resulted in the current structure.

As far as the appointment of each president is concerned, deliberations on the Company's succession plan commenced in 2017 and have continued ever since I became a member of the Nomination Committee three years ago. Reflecting on the steps taken, we first looked at the essential requirement and attributes of a CEO. We then focused on identifying CEO candidates. Initially, the list exceeded 10 possible candidates. Through a process that included the evaluation of a consulting company, as well as further education and training, we finally narrowed the list to a few names.

Hearings were conducted at every stage of the process with members of the Nomination Committee including myself voicing their opinions on the results and all relevant information including the evaluation of the consulting company. Based on all the aforementioned, a decision was made on the current CEO.

Whether it is the selection of a director or the CEO, it is critical to put in place a system of checks that ensure that the selection process is codified and properly carried out. Another key factor is to ensure that each selection and the selection process are fair and that equal opportunities are provided.

Previously, the outgoing president would carefully examine the individual attributes of a candidate. This included his or her personality, attitude toward work, and ability to respond to a wide range of circumstances. The outgoing president was therefore the final arbiter. Taking into consideration potential issues regarding transparency and impartiality, steps were taken to establish the

current Nomination Committee. I am confident that the selection process NSK now has in place is appropriate and extremely effective.

#### Mr. Nagahama

The compensation system follows certain rules of the game so to speak, and as such does not change from year to year. In principle, the system remains the same for at least the period of each mid-term management plan.

NSK's current compensation system is well structured. One feature of the Company's system is its high fluctuating compensation ratio. The fact that compensation is so closely linked to business performance allows the fixed compensation portion to essentially remain unchanged even in the event of a deterioration in performance. I believe this feature of the compensation system should be highly evaluated. Second, ESG targets are incorporated into the performance evaluation indicators of short-term performance-based compensation. Taking the lead over its peers, NSK was quick to adopt this progressive approach. While we have recently witnessed an increasing number of investors and asset management companies calling for ESG targets to be incorporated into performance evaluation indicators, NSK has already taken this initiative. Third, the system is based on a relative evaluation of the Company's total shareholder return (TSR). In this manner, steps are taken to evaluate and set mid- to long-term performance-based stock compensation. NSK does not just look at fluctuations in its stock price. The Company conducts a relative evaluation compared to overall market trends.

## Q5 Finally, what are your expectations of President Ichii and all employees of the NSK Group?

#### Mr. Bada

NSK is a company with a long history. We have many manufacturing sites and are well known in the local communities of each site. I believe there are families among our employees who are proud to have worked at these sites for two to three generations. We would hope that our employees around the world take great pride in working for a company that contributes to society through bearings. However, one cannot live on pride alone. It is vital that we continue to challenge ourselves if we are to take the next step. M&As in the condition monitoring system (CMS) business are also a challenge. I trust that we can become a company that takes pride in itself and takes on a variety of challenges.

#### Ms. Mochizuki

I sometimes hear that bearings are indispensable for ensuring the smooth movement of equipment and machinery. But I wonder if a breakthrough item will emerge that can serve as a replacement. Naturally, there is nothing to support this conjecture. The achievements NSK has accumulated over its long history are important, but I would like to see the Company

use this as a base to take a further leap forward. As far as the Company and its employees are concerned, I would hope that NSK will consistently pursue avenues through which it can contribute to the world at large. While we might not always be in a position to bring our aspirations to fruition, it is vital that we never lose the energy to devise new technologies and product ideas, or the desire and passion to create something new. I believe it is important that we never lose sight of the fact that a forward-looking vision provides the wellspring for sudden innovation.

#### Mr. Nagahama

I feel confident that the demand for bearings, which are an essential product across all industries, will not disappear anytime soon. However, it is important that we avoid resting on our laurels and think about how we can expand the scope of our current work and business. Two factors are critical here. The first is "development." With a track record that spans more than 100 years, NSK has earned the trust of customers from the automotive and many other industries. I base this assessment on my observations of corporate activities in Japan over a long period of time from my vantage in the financial field. Building on this relationship of trust with its customers, I would hope that NSK will proceed with confidence in the development and internal incorporation of advanced technologies as it responds in a forward-looking manner to customer needs. In this regard, I have heard that the Company's technological development capabilities are outstanding. I would ask that NSK further refine its skills and take on the challenge of innovation that Mr. Bada mentioned. The second key factor is to strengthen human resources, NSK's greatest asset. This entails further increasing employee engagement and cultivating the ability to respond to change. Both factors are important foundation elements for the next 100 years. I hope that the Company will make further efforts in development and human resources and move forward with strength.

