

# The Chairman in Conversation with the Outside Directors

---

The Nichirei Group is working to make its corporate governance stronger and more effective.

The Nichirei Group is working to make its corporate governance stronger and more effective, and proactively incorporates the opinions of outside directors. Nichirei's chairman and its three outside directors met to talk about further enhancing corporate governance to improve corporate value over the medium to long term.

## The Nichirei Group's Foremost Consideration in Corporate Governance

---

**Otani:** A corporation is a public institution whose purpose is mutual prosperity and coexistence with all its stakeholders, and it must operate within social norms and appropriate market standards. One internal system that plays an important role in achieving this is corporate governance. I believe that a major objective of corporate governance is to improve management efficiency through sound management—in other words, to improve corporate value and business performance. It is a mechanism for increasing corporate value over the long term through transparent, fair, swift and resolute decision-making, and requires ongoing, self-sustaining reforms.

In line with that objective, I believe that corporate governance has two roles: first, to prevent reckless management; and second, to encourage prompt action for proper decision-making. The essence of corporate

governance is guaranteeing management efficiency and soundness, which is premised above all on ensuring management transparency. The process of creating transparency is likely to be different for each company, starting, for example, with the choice under Japan's Companies Act of whether to be a Company with an Audit & Supervisory Board or a Company with a Nominating Committee, etc. It is the role of senior management to decide the kind of management structure it will create by designing a system according to the company's corporate culture and the issues it currently faces.

As you are aware, corporate governance separates management execution and supervision. It consists of both monitoring through internal control by the people in charge of management execution and monitoring through external control, which includes supervision by the Board of Directors and Audit & Supervisory Board members. The former refers to internal risk control activities by senior management, while the latter consists of external management supervision by shareholders, the Board of Directors, Audit & Supervisory Board



**Kunio Otani**  
Representative Director,  
Chairman

**Shizuka Uzawa**  
Outside Director

**Mieko Wanibuchi**  
Outside Director

**Kuniko Shoji**  
Outside Director

members and the accounting auditor. A spirit of compliance and a sound corporate culture and atmosphere form an important foundation for both. The basic management policy of the Nichirei Group, which consists of four operating companies integrated by a holding company, is transparency, simplicity and decentralization of authority. I intend to cultivate a corporate culture that creates value by sharing the many insights generated by our diversity.

## The Nichirei Group's Corporate Culture and Future Business Direction

**Uzawa:** I feel that the Nichirei Group has a serious-minded corporate culture. Although marine products and frozen foods (processed foods) are derivative businesses that originate from the Group's refrigerated warehouses, its business domains are still within a fairly

limited range, except for bioscience. When a company's core businesses are cash cows, I think it should already be considering its next businesses. Everyone in management from President Okushi on down has made the Nichirei Group's goals clear, including the target of an overseas sales ratio of 30% and the vision for the Group ten years from now, and is sharing that direction with employees and customers. These are all laudable actions, but I feel that Nichirei could be a little more adventurous. In order to survive, Nichirei must restructure its business portfolio.

**Wanibuchi:** Looking back five years to when I became an outside director, my first impression was also that Nichirei was serious-minded. As a new member of the Board of Directors, I thought that Nichirei was a well-grounded and solid company with a long history, and it has shown itself to be exactly that. However, I feel that Nichirei has changed considerably over those five years. The biggest change has been in transparency. I think it is becoming a place where any opinion can be discussed without reservation at various meetings.

## The Chairman in Conversation with the Outside Directors

Frozen foods and logistics are the two drivers of the Company. I think these businesses will endure as Nichirei moves toward its next stage, so I would like it to further increase its predominance as number one in the industry in Japan and become a leader worldwide.

**Shoji:** When I heard about Nichirei from an acquaintance, I got the impression that it was an excellent company that values quality—and that is exactly what it is. My overall impression is that of an amicable and good-natured company, and even during intense discussions at meetings, interactions remain cordial. I have the sense that people with good character are selected to become managers and receive proper training.

Regarding the direction of Nichirei's business, I am worried about Nichirei's over-reliance on its two core businesses. At this stage, I think it is better for those businesses to be like a bunch of grapes—each growing separately while remaining connected—rather than a collection of outliers detached from the main business. At Nichirei Fresh, for instance, rather than limiting the items it handles, it would be better to strengthen relationships with suppliers by focusing on changes in the supply of vegetables and other products. By specializing in ingredients, the marine, meat and poultry products business will grow equally with the other businesses, which will further strengthen Nichirei going forward.

**Otani:** Here we have three people with three different perspectives on the Nichirei Group's businesses. Just like you, the seven inside directors all have different opinions.

Basically, I think it is good to have a technological orientation when advancing into a new area. It is better to use technology as the basis for generating innovation when establishing these "outliers" you mention. I dislike the discontinuous approach of simply switching areas or domains, but some internal directors have also spoken of our need to enter new areas. I am glad we have a management structure that allows us to discuss such matters candidly, without having to read between the lines.

One issue that needs to be addressed is that the desire to engage in trial and error is somewhat weak at Nichirei. Addressing this will require reforms both in individual awareness and in our corporate culture.

In addition, when launching innovative businesses and projects, experiencing small personal successes is more important than relying exclusively on external consultants. People must have a sense of entrepreneurship to generate innovation.

### Points of Focus as a Nichirei Group Outside Director

---

**Uzawa:** The purpose of a corporation is to make a profit in a proper manner, but as Mr. Otani said at the start of our conversation, propriety requires transparency. Transparency is essential for a corporation to run its business properly. If the chairman or president engages in dubious activity, outside directors must be able to call for his resignation. Probably our single most important quality is the ability to judge what is proper. In addition to providing this function, I use my personal experience in management and overseas business to supervise and make decisions from a third-party standpoint. As for the directors' skill matrix, companies lately have started to emphasize selecting people not simply because they have specialized knowledge, but with a view toward the kind of company they want to become. For the Nichirei Group to endure, it should think deeply about the skill matrix and continue to appoint appropriate people.

**Wanibuchi:** In aiming to increase corporate value over the long term, Japanese companies have recently been shifting toward value for all stakeholders, including shareholders. The phrase *sampo yoshi* has long been used in Japan to express the aim of doing what is best for three parties: the company, its business partners and its customers. I think the role of outside directors is to point out matters that executives have either not noticed or are aware of but have not resolved, with the goal of steady improvement in corporate value over the long term. I hold a very unusual position among Nichirei's directors. As a woman, a housewife, and someone with experience in both raising children and caring for an elderly relative, I look at Nichirei's products and services as a consumer, from the perspective of a buyer and user. And since I am also the owner of a medium-sized enterprise, my perspective comes from direct experience

rather than simply studying documents. I am always eager to be of use in these respects.

**Shoji:** Outside directors are in a different position from inside directors. But although we approach issues from different perspectives, we consider it our duty to cooperate in helping the Nichirei Group grow into a respected company. The role of outside directors is to consider agenda items at Board of Directors meetings from three aspects: legality, appropriateness and efficiency, with legality being first and foremost. In doing so, I intend to offer my opinion based on whether the matter at hand will lead to happiness for stakeholders—meaning employees, shareholders and the local community.

## Evaluation of the Nichirei Group's Board of Directors and Matters for Deliberation at Board Meetings

**Otani:** A major objective of corporate governance is to improve management efficiency through sound management—in other words, to improve corporate value and business performance. One key issue in achieving this objective is determining whether the Board of Directors is fulfilling the functions expected of it. To do so, since 2016 all Nichirei Corporation directors and Audit & Supervisory Board members have participated in a yearly evaluation of the Board of Directors. They fill out a questionnaire consisting of evaluation items and add their comments, and every three years, the results of individual interviews are used in compiling the final evaluation. From the very start, objectivity of the evaluation process has been enhanced through outsourcing to external experts who assist in analyzing and evaluating the activities of the Board of Directors and other matters. Summaries of the findings are subsequently disclosed.

In FY2021, the external experts offered a general finding that at Nichirei's Board of Directors meetings, "discussions remained lively in an atmosphere encouraging the sharing of opinions." On the whole, most respondents held positive opinions indicating that the effectiveness of the Board of Directors was secured

to a considerable extent, with a feeling that the board's way of proceeding and holding discussions is steadily evolving. Furthermore, directors and Audit & Supervisory Board members pointed out three specific areas where the Board of Directors is in need of improvement: its role and institutional design, its composition, and its administration and meeting materials management.

First, regarding the institutional design of the Board of Directors, the current institutional design of a Company with Audit & Supervisory Board system was deemed appropriate as decision-making and management supervision are executed effectively, and thus many were of the opinion that there was no need to transition to a different institutional design (a Company with an Audit & Supervisory Committee or a Company with a Nominating Committee). However, we decided to engage in ongoing discussions and review in light of factors such as the Nichirei Group's management strategies, changes in the business environment going forward and Corporate Governance Code requirements.

Next, while the composition of the Board of Directors was evaluated positively as a whole, taking into account Corporate Governance Code revisions and the annual tightening of voting rights execution criteria for institutional investors, many were of the opinion that the proportion of outside directors should be increased to one-third or more. Additionally, there were many other opinions exchanged regarding inside director composition and outside director diversity. As of FY2022, one female outside director has been added, bringing the number of outside directors to four out of a total of eleven directors. Because the perspective of women is very important for Nichirei's business, it has been appointing female outside directors from a relatively early stage compared with other companies in the industry, and some of these directors have management experience at major corporations. I think the board has achieved a well-balanced composition that ensures gender diversity, but our requirements will change along with changes in factors such as the size of the Nichirei Group and the scope of its businesses. We will therefore continue to review the optimal ratio of outside directors by considering inside director composition and outside director diversity.

## The Chairman in Conversation with the Outside Directors

As for administration of the Board of Directors and management of materials at meetings, many thought that progress was being made in improving materials. On the other hand, several respondents said that further improvements were needed in the content and timing of provision of meeting materials, so our investigation continues. In addition, when new directors and Audit & Supervisory Board members are appointed, and after they have taken their positions, we intend to conduct training as appropriate on revisions to laws, management issues and other matters.

Furthermore, President Okushi is promoting a succession plan, as suggested in the latest revision of Japan's Corporate Governance Code. Taking a medium- to long-term perspective based on the Nichirei Group's management principles, we have carefully considered what we should do about our next generation of core human resources and Group company management. Our conclusions formed the basis for subsequent discussion by the Nominating Advisory Committee. Now that a sample group of human resources has been selected, the Nominating Advisory Committee is now considering the education to be provided and the perspectives to be taken in developing the careers of candidates going forward. Succession plans are concurrently moving forward at the operating companies, with practical training being conducted during meetings.

**Uzawa:** To give one example of the lively discussions we have at Board of Directors meetings, we held three discussions to review Nichirei's past overseas expansion and measures for future success. Discussions over the past year have been especially open, allowing outside directors to grasp the situation. The materials outside directors receive are not perfect, but they are more standardized and easier to understand than before.

In addition, outside directors are normally required to attend Board of Directors meetings, but in some cases we also have the chance to attend Management Committee and other meetings and provide our opinions as reference to executives, so I feel I have a much better understanding than I did when I began here. I sometimes attend Management Committee meetings as often as once a week.

**Otani:** Different topics are taken up at the Board of Directors and the Management Committee meetings according to degree of impact on management and theme, and I tell all outside directors they are welcome to attend meetings of the Management Committee as observers if they have time. Agenda items and related materials are available on the Company intranet.

**Wanibuchi:** I also attend Management Committee meetings about once a month.

**Otani:** Furthermore, the Group was a relatively early adopter of an electronic (online) voting system. This software enables users to see the number of approvals, disapprovals and abstentions for each agenda item at a Board of Directors meeting. Occasionally during in-person meetings, instances where attendees offer no opinions may be considered unanimous consent, but through the use of an online voting system participants at Nichirei Group meetings can see all of the votes.

Discussions are especially lively when the topic is an investment or M&A proposal. All directors, whether inside or outside, engage in a candid exchange on matters such as whether a project's value has been overrated and is out of sync with actual conditions, or if there are issues with post-merger integration, and unhesitatingly give their opinions on how to proceed.

## What the Nichirei Group Should Do to Achieve Sustainable Growth

---

**Shoji:** Since the Nichirei Group's main businesses are food and logistics, I think it should work to reduce its environmental footprint for the sake of its own corporate sustainability, viewing related investments as expenses necessary for maintaining that sustainability. I have a great deal of confidence in Nichirei's sustainability because when making investment proposals for production plants and refrigerated warehouses, materials used in the discussion always mention environmental considerations. Even though the investment amount may be considerable, Nichirei should regard it as a necessity, with the understanding that the sustainability of society will lead to the sustainability of the Nichirei Group.



**Wanibuchi:** The Nichirei Pledge was changed last year to reflect ESG and the SDGs as the Nichirei Group set forth its five material matters. In FY2022, we have summarized the results of our extensive discussions on how to actually manage these material matters, and I think that the results of our discussions will be used in Nichirei's sustainable management.

**Uzawa:** I do not believe it is necessary to think about conducting corporate activities for the purpose of making a social contribution because the activities themselves result in a contribution to society. The ability to make capital expenditures with a low burden on the environment to generate profit, and then return that profit to stakeholders is, in a broad sense, fulfilling an obligation to all stakeholders, including the Earth. ESG and the SDGs are one set of guidelines for corporate activities, but contributing to resolving social and environmental issues should be seen as the result, rather than the purpose, of those activities.

**Otani:** In Peter Drucker's book *Management: Tasks, Responsibilities, Practices*, he says that "the business

enterprise is a creature of a society and an economy, and society or economy can put any business out of existence overnight." A corporation is inextricably linked with and a member of society. That is why I think that every company is able to help resolve social issues through its activities based on its mission. The Nichirei Group's Mission is to "Focus on Lifestyles, and Provide True Satisfaction." Based on this mission, we established our long-term vision to "continue to support good eating habits and health by leveraging our state-of-the-art manufacturing practices that optimize nature's bounty, along with our leading-edge logistics services." We believe that making this vision a reality will ensure sustainability for both Nichirei and society. I am confident that by steadily continuing corporate activities day after day in good faith based on our mission, we will help resolve social issues.

Our inside and outside directors used this approach to decide on Nichirei's five material matters. Going forward, we will incorporate specific measures and quantitative targets based on these matters into our management strategy in order to share them among all employees and move forward with implementation.

