We will raise corporate value by steadily promoting reforms.

Outside Director (Chairman of Nominating Committee)
Noboru Tsuda
Jun. 2005 Operating Officer at Mitsubishi Chemical Industries Ltd. (currently Mitsubishi Chemical Corporation)
Apr. 2014 Board of Directors (Representative Director), Vice President, Executive Officer at Mitsubishi Chemical Holdings Corporation
Jan. 2016 Outside Director at NTN (current position)

Outside Director (Chairman of Audit Committee)
Kouji Kawahara
Jan. 2010 Operating Officer at Bank of Tokyo Mitsubishi UFJ, Ltd.
Jun. 2015 Full-time statutory auditor at NTN
Jan. 2019 Outside Director at NTN (current position)

Topic 1
Achievements of Governance Reforms

In June 2019, NTN obtained approval from an Annual Shareholders’ Meeting and transitioned from a Company with Board of Corporate Auditors to a Company with a Nominating Committee, etc., but what has changed due to the transition?

Tsuda: Traditional Japanese firms did not have a clear distinction between execution and supervision, so-called governance, was inadequate. The same is true for NTN. Although NTN made a good decision to introduce Outside Directors, Board of Directors decided on even minor matters as before and the content of reports on such decisions was inadequate for Outside Directors. Thus, the important supervision function of Directors remained weak. We have changed our corporate structure to a Company with a Nominating Committee, etc. because we believe it would be better to drastically change our corporate governance structure to move away from the traditional corporate structure. The number of directors, who do not concurrently serve as Executive Officers, has increased to six, accounting for the majority of Board of Directors, and I think this and other factors indicate that the Company is going in the right direction.

Kawahara: That’s true. In order to speed up management, I think it is appropriate that the Company has adopted a system where Executive Officers focus on business execution and Directors are in charge of supervision. Now, President and Executive Officers execute business and report to the Nominating Committee and their intrinsic role of “assessing personnel, compensation, and other matters, in response to the Company’s major policies and status of execution” has served as an Outside Audit & Supervisory Board Member for four years, but after I took office, a senior statutory auditor encouraged Outside Directors to attend every meeting of Board of Corporate Auditors, as observers and as a result, such meetings served as a forum for sharing information and exchanging views among Outside Officers. This has been very helpful. On the other hand, I also felt that “measures are often taken to simply follow precedents.” When I asked “Why do you do this?” in an interview during an audit, I often received answers like, “This is what we’ve been doing for a long time.” Even if they thought they needed to change those points, the actual situation might not have allowed them to make a change easily.

Tsuda: The transition to a Company with a Nominating Committee, etc. provided a good opportunity to change this corporate culture.

Kawahara: That’s right. However, though we took time to discuss the transition, the discussion remained as flat as ever and did not proceed very much. I also participate in a Management Meeting and other events that are held before Board of Directors meeting is held, but there were some cases in which an issue was finally submitted to Board of Directors after many meetings were held for such issue. After the system change, Directors are able to concentrate on “supervision” tasks because executives give answers themselves. Also, the number of meetings has been reduced, and I feel the decision-making process has been accelerated and streamlined. With regard to Global Management Conference, Executive Officers have recently held active discussions themselves in their respective capacity and have not necessarily adopted resolutions unanimously.

Tsuda: Some employees still have an impression that becoming a Director means becoming important, and that some employees still have an old mindset. Governance reform can’t possibly achieve overnight, but due to the change in the system, we are making steady progress toward the desired direction.

Topic 2
Awareness of Issues in the Fiscal Year ended March 2020

What issues did you consider as the head of the Nominating Committee and the Audit Committee in the previous fiscal year?

Kawahara: Let me talk from the viewpoint of an Audit Committee member. Due to the frequent occurrence of improper accounting incidents involving our overseas subsidiaries that are listed companies, strengthening internal control globally was an important theme in the previous fiscal year. In Japan, the Audit Preparation and Support Office played a central role in holding regular meetings with statutory auditors of our subsidiaries, and we implemented initiatives such as sharing case studies. As a result, practices are gradually being improved, and I feel that the initiatives are producing good results. With regard to appointment of directors and statutory auditors at our Group companies in Japan, our sensor management gives direct instructions to recruit human resources that are really helpful and advantageous to those companies. On the other hand, issues still remain in our overseas Group companies. Cultures and other factors vary depending on the regions and problems are difficult to identify. If we go to a local site for an audit and have a connection, we will be able to speak frankly. However, we have not yet established a relationship with all foreign subsidiaries and affiliated companies.

Tsuda: As Mr. Kawahara has said, there are issues with internal control of our overseas Group companies. Although we have been moving forward with initiatives such as recruiting Herve Breau from 3M and appointing him as Operating Officer in charge of Procurement, there has been a delay in the globalisation of headquarters functions. Non-business information such as the helpline is not quickly provided to Board of Directors from overseas sites. Regarding compliance at overseas sites, it is difficult to grasp problems because information as to where a problem exists and what the situation is like is not quickly provided to NTN’s Head Office.

Kawahara: In order to solve the issue, we are currently creating a channel through which the sections in charge of internal control at overseas sites provide information to the Executive Officer in charge of overseas sites who works at NTN’s Head Office.

Tsuda: This may be a harsh comment, but in other respects too, I feel that the speed at which a decision made by top management is disseminated to local sites and is put into practice is slow. For example, even though we decided to “curb capital investment,” the decision was not quickly put into practice. I sometimes think it might be difficult to stop operations. In such a situation, on the contrary, it would be difficult to accelerate operations when it is necessary to do so. The same is true of the inventory. Even if inventory reduction is decided, it does not appear that the reduction proceeds quickly. Though the production process is long and divided into multiple sections, it takes time to “control” operations, because it takes time to communicate, importance is not conveyed, or each organization is unable to think and act on its own.

Kawahara: With regard to “trust,” I would like to add something: when reporting the results of on-site audits to Board of Directors, we do not just list complaints, but also trying to communicate the facts frankly. Also, at the end of the audit, I try to ask, “What do you think of the current NTN? What does NTN need?” The subjects of audits are general managers of business sites and president of subsidiaries. They themselves have various thoughts, and I have heard them voicing questions like “What directions will NTN take?” Such voices are also reported and shared in Board of Directors and at other opportunities. This is because it is important to take follow-up measures to resolve problems in some way, as long as we have people at the site talk about their problems during the audit. Conversely, if we feel that the thoughts of Directors and Executive Officers are not communicated to people at the site, we may communicate them at the time of audit. Through these efforts, if we can communicate with each other and understand what trouble the work site has and what the NTN Head Office is thinking about, I believe we have fulfilled the role of auditing. We believe that realizing a smooth organization is also an important role of the auditing team.

Topic 3
What is required of Directors

What are you doing to foster a future Director who will be responsible for management in the future? What is needed to build confidence between Directors and personnel at the site?

Tsuda: By the way, the Nominating Committee believes that “fostering successors” is a major issue. The issue is not how we will nurture the next generation, but our focus is on how to nurture the generation after the next and the generation after such generation. Education on business skills is sufficiently provided, but it is necessary to develop the ability to hold discussions on major themes and to enhance education for raising awareness of management issues. We are currently reviewing what kind of skills are needed in Japan and globally, and what kind of education should be provided to nurture such skills, targeting people around the age of 50. In addition, we created a skill matrix so that the skills of Directors can be understood by shareholders and third parties. (See p.73 for more details.)

Kawahara: The “Notice of Convocation” for the 121st Shareholders’ Meeting held in July 2020 also includes the skill matrix of candidate Directors.

Tsuda: I would like to use this kind of matrix to check the skills of candidate successors and strengthen each person’s skills, for example, by training them if there is any skill imbalance. However, it is not enough to have many “circles” in the checkbox, and we would like those who become a Director or Executive Officer to have a profound knowledge in at least one field. In order to gain the “trust” of people, which forms the basis of a leader, I think it is also important to acquire outstanding abilities that make others think “this person is a leading expert” or “I can’t best this person.”

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The NTN Revitalization Scenario was announced in June 2020. Currently, a medium-term management plan is being formulated with the fiscal year ending March 2023 as the plan's final year. How do you intend to revitalize NTN?

Tsuda: The results for the fiscal year ended March 2020 were extremely unfortunate. The cash flow from capital expenditures was not in line with our expectations, causing a divergence between our initial expectations and actual results. In addition, we posted impairment losses due to the impact of the new coronavirus (COVID-19).

Kawahara: White sales did not grow in the previous fiscal year, a burden was imposed on us due to the development of a new product in Wakayama Prefecture. However, this was for the purpose of anti-seismic measures and production restructuring, and must be seen as the end. As Tsuda said earlier, the “vertical axis” of the vertically-divided system of business divisions exhibited strong effects, and the division’s idea of “investment must be made because the project has been decided” took precedence, with the initial estimates being too optimistic and the ex-post verification of returns being carried out. In such a case, I think we were not able to discuss whether to stop the business, whether to shift it, and how to control it. I would like to confirm once again how to follow up on capital investment.

Tsuda: That’s right. We (Directors) are also responsible for determining performance, and we have made strict evaluations and assessments in terms of personnel affairs and compensation, by taking measures such as no compensation for non-owners. The issue is what direction to take in the future. How will you improve your business performance after you have overcome the impact of the new coronavirus? In such a situation, we believe that the ultimate issue is to what extent we can build up strength that surpasses that of our competitors. To this end, I believe that the ultimate issue is to what extent we can continue to be a company worth people’s support.

Kawahara: With regard to materiality, it may be a good idea to start with a rough design and update it according to the situation, instead of trying to create well-designed work from the beginning. Also, I believe that it is most important for top management to understand the significance of the issue. Materiality will also be factored into the medium-term management plan.

Tsuda and Kawahara: Despite challenging results in the fiscal year ended March 2020, we intend to increase corporate value by selecting and concentrating on our businesses. As discussed in this talk, NTN’s revitalization is proceeding step-by-step through the promotion of governance reforms and other reforms. We will continue to check management at Outside Directors and fully support the progress of the NTN.

In my previous job, I shared goals with customers and created new value together with a variety of stakeholders as an Executive Officer of the business division. Appointed as an Outside Director, I will continue to contribute to the business division by giving it the fiscal year ended March 2024 as the plan’s final year. How do you intend to revitalize NTN?

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In the past, corporate governance had the same meaning as being “shareholder-oriented.” However, reflecting on the harmful effects of being shareholder-oriented, the importance of ESG management has increased. I believe that the present corporate governance is to promote management by focusing on ESG management while consistent management by ESG, such as the involvement of stakeholders (shareholders, employees, customers, society, etc.).

I have been analyzing, evaluating, and improving our operations as an Enterprise as an institutional investor for more than 20 years in Japan and the U.S. At the time, I felt that the overemphasis on shareholders’ interests, which began in the U.S., would have a negative impact on long-term corporate growth, so I formulated the corporate governance of U.S. companies, as an Executive Officer and Director, in operating companies by seeking a balance between the interests of stakeholders, as I have experienced difficulties in valuing the interests of stakeholders according to the interests of shareholders. I would like to leverage my experience as an investor and Executive Director of operating companies to contribute to improving the Company’s corporate governance and corporate value from a perspective that differs from that of Inside Directors.

The global epidemic of new coronavirus infections is a major challenge for our business management, but it is also a major challenge for us as an Executive as an institutional investor for more than 20 years in Japan and the U.S. At the time, I felt that the overemphasis on shareholders’ interests, which began in the U.S., would have a negative impact on long-term corporate growth, so I formulated the corporate governance of U.S. companies, as an Executive Officer and Director, in operating companies by seeking a balance between the interests of stakeholders, as I have experienced difficulties in valuing the interests of stakeholders according to the interests of shareholders. I would like to leverage my experience as an investor and Executive Director of operating companies to contribute to improving the Company’s corporate governance and corporate value from a perspective that differs from that of Inside Directors.

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