Outside Directors’ Roundtable Discussion

Vitalizing Board of Directors by Strengthening Governance

The Company’s four outside directors discuss their impressions of Panasonic’s management, changes and issues related to the Board of Directors, and the training and development of personnel for upper management positions.

Outside Directors’ View of Panasonic

Panasonic is celebrating its 100th anniversary and has transformed itself constantly up through the present. Please give us your honest impressions of Panasonic, which is starting out now on its next 100 years.

Oku

I’d first like to offer my congratulations on Panasonic’s 100th anniversary. Looking back on the past 10 to 15 years, the environment surrounding Panasonic’s business has changed substantially. The progress of digitalization greatly shook the industry as a whole, and Japanese consumer electronics companies sustained pressure from Asia, especially Korea. Because it was difficult to predict such changes, the Company was forced to take measures in response to them. In the midst of this, Panasonic began to strengthen its B2B business and carry out broad overseas development in Asia and Central and South America.

Since Mr. Tsuga became president in 2012, the thinking has been to firmly rebuild B2C, the foundation of Panasonic’s business, and use the cash generated to expand the B2B domain. Based on this thinking, Panasonic has clearly started to shift from B2C, where it

Masayuki Oku
Honorary Advisor,
Sumitomo Mitsui Financial Group, Inc.
Involved in numerous international M&A projects; expertise in international finance and law.

Yoshinobu Tsutsui
Chairman of the Board,
Nippon Life Insurance Company
Extensive experience at the highest level of management along with expertise in domestic and international financial developments.
It is easy to become embroiled in price competition, to B2B, where stable earnings can be expected over the long term, while also conducting reforms to its organizational structures. I think this business model reform and this basic strategy are correct. Even in the B2B domain, Chinese companies are emerging and competition is also expected to intensify, so going forward Panasonic should continue to conduct management with flexibility and a sense of speed.

A company that has existed for 100 years certainly has a great deal of strength and determination, and Panasonic is starting to firmly show this side as well. While shifting to B2B, including the automotive business, it is leveraging strengths in consumer electronics and also creating a new axis in the business, and at the same time it is firmly developing the solutions business as a new field. I strongly sense that under Mr. Tsuga, the four Divisional Company presidents are in the process of forming their respective strengths while heading in the same direction.

“Change,” even in government policy, is truly difficult; it’s not an ordinary occurrence. But Panasonic today has the power to change. In an industry where conditions change extremely quickly, the right way to respond is also constantly changing. This is why I think a company must constantly keep the power to change within itself. So-called “big company disease” is when most of the strong energy is inwardly directed, and Panasonic still has this nature in certain areas, but the power to change is there; that is to say, energy is currently moving in an outward direction. It is important that going forward Panasonic continues to further grow its power to change and take on new challenges with even greater flexibility.

Just as Mr. Oku says, amidst the discontinuous changes wrought by digitalization and globalization, Japan’s manufacturing industry has lost the “winning pattern” it had cultivated for so many years and has struggled mightily to recover from this. The organizational strength of Japanese companies came from continuity, or joint work from a harmony rooted in homogeneity, but in response to discontinuous change, this strength can often function in the wrong direction. At such times, a type of regeneration is needed in which things like discontinuity and diversity are built into the organization.

My impression of Panasonic when I came in as an outside director two years ago, is that regeneration is progressing more than I had anticipated. Having said this though, if you asked me if the current rejuvenation-like level is adequate, I would have to say it is not adequate. Digitalization and globalization are still not likely to end, so it will be necessary to continue regenerating at the organizational level. In response to these revitalization efforts, I plan to continue to encourage the Company as a coaching partner.
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Tsutsui  Panasonic develops a broad range of businesses on a global scale and naturally faces various risks. This is why strengthening business management and governance systems for the sustained growth required of Panasonic by investors is an extremely challenging endeavor with a high level of difficulty. Panasonic I feel is currently boldly engaged in this. Panasonic, now celebrating its 100th anniversary, should respect its traditions, in which management has been rooted in the spirit of founder Konosuke Matsushita. A vision for the future absolutely cannot be devised unless it is based on what has been done up until now. At the same time, tradition is like a double-edged sword; it provides a foundation for a vision but can also impede the progress of change—having both is difficult. In taking up future challenges, I think it is important to effect transformation with all employees on the same vector while remaining rooted in tradition.

Effectiveness of the Board of Directors

The effectiveness of the Board of Directors is an important element in continuing to transform. Please give us your thoughts on changes and issues related to the Board of Directors of Panasonic, which has worked to strengthen governance.

Oku  Panasonic’s Board of Directors 10 years ago proceeded according to schedule; that is, it was a typical board at a traditional company. This has evolved autonomously over the past five or six years. There is more open discussion; things have improved a great deal. Now, looking from the perspective of an outside director entrusted by shareholders for management, I confirm strategies devised by the executive side and ask various questions about risks, and we now engage in lively discussion.

Toyama  I have been here for two years, and just in that time I think the discussions and comments have become lively. Discussions by the Board of Directors are important in terms of assessing future management personnel as well, and going forward, I think that internal directors and Divisional Company presidents should also be more forthcoming to further enliven board discussions.

Ota  Panasonic is an interesting company. While it maintains its old nature, when it decides to change, it seriously, directly and sincerely works to change. I think this is a very good quality. The Nomination and Compensation Advisory Committee, since its establishment in November 2015, has conducted truly candid, unreserved discussions. In fiscal 2018, it discussed revising the corporate advisor system and reported to the Board of Directors. Based on the spirit of founder Konosuke Matsushita, Panasonic’s approach to governance has always been strong, but what is required now is transparency that is apparent even when looking from an external viewpoint. This has progressed rapidly over the past two or three years.

Oku  My impression is that changes in response to opinions given at the Board of Directors meeting are made more quickly. For example, in last year’s questionnaire on evaluation of the Board of Directors’ effectiveness, I proposed hearing the CEO’s thoughts on such topics as medium-to-long term issues and management strategy, and my proposal was incorporated right away at the next Board of Directors meeting. It continues to be implemented today, providing a valuable opportunity to learn the thoughts of top management.

“Discussions by the Board of Directors have clearly been enlivened”
Compared to the time around 2013 when I was appointed an outside director, my impression is that systems for upper management development, selection and succession have been established fairly well. Actually, the Nomination and Compensation Advisory Committee is currently discussing various matters, with an awareness of transparency, related to the qualities required of the CEO’s successor and the preferred timing of succession. Regarding the required qualities, the speed of change in the industry is very fast, so there is no fixed answer, and I think this will be determined when the time comes. However, the ability to think from a Group-wide perspective, sensitivity to business models, and the ability to choose strategies flexibly are always important.

I also think that how to develop personnel with a broad viewpoint capable of managing business as a whole is truly a very big challenge. The business area is this large and it is global, so the Divisional Company system and Business Division system make sense, but with this organizational format there is the problem of not being able to develop that kind of view. Therefore, I think it is important to utilize this time to engage in debate repeatedly on various themes.

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Yes, I agree. It would be good if all members could have constructive and serious debate while exchanging opinions for an adequate amount of time on strategic themes like the business portfolio and the balance between investment and financial discipline.

I think the same. In particular, outside directors don’t know the situation with the executive side very well, so it is possible that the right decisions just can’t be made through formal deliberations. For this reason, satisfactory deliberations are important, which means whether or not decisions are being made that can be truly understood and supported by outside directors is important. It is often said that supervision should be separate from execution. This is important as a mechanism of governance, but at the same time, it’s important also for supervision and execution to substantially deliberate and make decisions as a single team with a sense of unity and trust. I think the effectiveness of the Board of Directors is improved when issues and solutions are presented to the board at an early stage to allow us to confirm them and then make decisions upon active deliberation. I think it is necessary to continue sustained efforts going forward toward an ideal Board of Directors meeting.

Substantive deliberations will be increasingly important going forward.

**Personnel Development for the Next Generation of Upper Management**

Please tell us your opinions on the qualities that will be required of upper management at Panasonic going forward and how to develop qualified personnel.
risk of it being difficult to develop personnel with a broad viewpoint. Of course having a vision in each specialist domain is also important, but on this basis, I think it is necessary to develop personnel with a certain amount of knowledge of other Divisional Companies and Business Divisions and with a Group-wide vision. To this end, it is also necessary to conduct cross-divisional personnel exchange and deliberate rotations from an early stage. Another potential method is giving younger employees in their late 20’s or in their 30’s short-term experiences outside their own divisions.

The CEO must always think on three axes: the geographical axis of business development into diverse regions, the axis of diverse businesses, and the function axis of planning, development, production, sales and financial affairs. However, it is not possible to be a specialist in all of the three axes, so realistically, assigning suitable personnel to each position and forming an optimal combination is inevitable. For this reason, the ability to select optimal personnel and to entrust work to people are also important. Truly, the founder’s approach of “Entrusting work to your subordinates but not completely” is important today. To accomplish this, it is important to simultaneously think also of developing successors to the positions at the CEO’s right hand, the CFO, CSO, CTO, etc.

For upper management, how to develop people with high latent ability capable of thinking while joining information and technology is important. Having a global mindset is also to be emphasized. The issue is how we develop, from a long-term standpoint, personnel with management experience capable of combining various elements from a global perspective. It is not enough to simply have them think intellectually about it; people must be developed by actually giving them various experiences. Another issue is how to develop non-Japanese nationals for positions in upper management.

The Companies Act in Japan stipulates the enhancement of corporate governance practices. I define the basic principle of corporate governance as “capital democracy”. This means that shareholders are the final beneficiaries and also play an important role in governance. Panasonic’s long-term corporate value includes not only economic value but various social values, and the process of effecting the sustained growth of this total corporate value is the joint work of
We will enhance corporate value together with shareholders

shareholders committed to the Company and we in management. The Board of Directors, which centers on outside directors, is clearly oriented to this, and we plan to continue moving forward together with shareholders.

The position of outside director is the same as investors who watch over the company from a medium-to-long term perspective. Speaking from this perspective, I think it is most important to not be at all reassured by recent growth in sales and profits and to continue to grow by constantly taking on various challenges.

Panasonic today is starting to have internally the power to change itself in order to take on this challenge. It also thoroughly and straightforwardly reports its situation to shareholders and investors, including issues and problems. In this sense, it is a very open company. To continue to change going forward, this openness, being open to the outside, is extremely important, and I personally rate Panasonic highly in this respect.

As for my message to shareholders and investors, I think the daily stock price and quarterly results are important, but I would say please look at Panasonic from a longer time axis.

I would like shareholders and investors to look at Panasonic from the standpoint of how the Company is currently doing on its mid-term plan targets, or based on its stated vision, how the Company is developing a governance system to support future growth, how the Company has overcome difficulties while being exposed to various risks in the past, and whether it will continue to overcome them.

Please recognize the appeal of Panasonic as a company that’s been here 100 years and has continued to transform for 100 years.

I agree that achieving growth in sales and profit is just a transition point. But I must say that I was deeply moved when the Company achieved both sales and profit growth in real terms, excluding the effects of foreign currency exchange rates, for the first time in seven years.

How will Panasonic look in 10 years? There are businesses that will generate results and move forward while respecting its traditions and businesses that have thrown out the past and are growing greatly in a very different world, so actually, I’m not able to predict it myself. One thing for certain though is that over these past 100 years, though times have not always been good, Panasonic has a track record of overcoming even the hard times and continuing to transform. And, this company will no doubt continue to transform into the future. I think this is something we can certainly expect.