Governance Dialogue between the President and an Outside Director

Governance Supporting Transformation for Growth

The Role and Responsibilities of the Board of Directors



▶For detailed career histories, see Management Team on p. 74 onward.

How we view the current period of transformation toward the next stage of growth

Under VISION 2030 stage2, Gunze is pursuing Transformation, including changes to its business structure and management foundation. How do you view the turning point the Company is currently facing?

Oka I believe Gunze is now at a major turning point. Over its history of more than 130 years, Gunze has accumulated many successful experiences. At the same time, some of the business models that worked well in the past are no longer necessarily suited to today's market environment. With significant changes in market conditions, customer needs, and the pace of technological innovation, it has become increasingly difficult to achieve sustainable growth simply by continuing to operate businesses based on conventional approaches.

Under VISION 2030 stage2, we therefore aim to review not only our businesses themselves, but also our business models, organizations, approach to human resources, and ways of working, thereby building a foundation for new growth. Structural reform can sometimes be associated with downsizing or greater efficiency, but what we are aiming for lies beyond that: growth. We regard this as a period of transformation in which Gunze will evolve into a company capable of continuously creating value for the future.

Kida I share the view that Gunze is now in an important period of transformation as it prepares for its next stage of growth. Until now, the Company has grown by continuously improving and refining its operations while leveraging the technologies and business foundations it has cultivated over many years. However, the environment surrounding companies is changing dramatically, with heightened geopolitical risks, demographic shifts, accelerating digitalization, and the growing use of AI.

Against this backdrop, improving existing businesses alone is no longer sufficient. We need to reconsider the business portfolio and the management foundation themselves with future growth in mind. Our discussions have therefore focused not on "changing because current performance presents challenges," but on "changing in order to achieve future growth." I believe we are now in an important phase of building the growth foundation for the next 10 to 20 years.

Looking beyond reform to growth

Structural reform inevitably involves difficult decisions. At the same time, reform alone does not lead to sustainable growth. How has the Board of Directors discussed structural reform and growth strategies?

Kida We have repeatedly discussed the importance of not allowing structural reform itself to become the objective. Take the

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Apparel Business, for example. If we were considering only short-term improvements in profitability, there would be various options available. However, many Board members have expressed the view that decisions should not be based solely on profitability when we consider Gunze's brand value, its points of contact with customers, and the trust it has built over many years.

What matters is clearly defining, with a view toward what Gunze should look like 10 or 20 years from now, what value each business should provide and how it should grow. For this reason, the Board has continued to discuss such questions as what we should preserve, what we should strengthen, and what kind of growth we should pursue.

Another important theme has been consideration for employees affected by the reforms. If structural reform alone is emphasized, employees may become anxious about the future. We have therefore repeatedly discussed the importance of communicating not only why reform is necessary, but also the vision for growth that lies beyond it.

Oka I have always viewed structural reform and growth strategy as two sides of the same coin. For Gunze to grow, we first need to strengthen our earnings structure and create the capacity to invest for the future. That made it unavoidable for us to review low-profit businesses and inefficient structures. At the same time, reform alone does not make a company grow. The key question is where to allocate the management resources generated through structural reform and how to translate them into future growth.

At Board meetings as well, I have received extensive advice from the perspective of how we should envision growth beyond reform. Those discussions have reinforced my recognition of how important it is to consider reform and growth together.

Even as we have implemented reforms, we have made decisions with future growth potential constantly in mind. Rather than focusing solely on short-term earnings improvement, we place particular emphasis on whether each decision will contribute to enhancing corporate value over the medium to long term.

From optimization of individual businesses to company-wide optimization

The Board is now engaging in more in-depth discussions about the business portfolio and the allocation of management resources. How have Board discussions changed?

Kida In the past, discussions tended to focus primarily on how each business division could grow its own business. In recent years, however, there has been an increasing emphasis on a Company-wide perspective, asking how each business should be positioned within Gunze as a whole.

ROIC has also become an important indicator when considering management from the standpoint of Company-wide optimization. We assess each business not only in terms of growth potential and profitability, but also from the perspective of capital efficiency, and use this assessment in reviewing the allocation of management resources and the business portfolio.

Which businesses should serve as growth drivers? Which businesses should be maintained and strengthened as the earnings base? Where should management resources be allocated on a priority basis? Discussions on these portfolio-related questions have become increasingly active.

Behind this change is the growing number of opportunities to discuss management resource allocation from the standpoint of optimizing Gunze as a whole. We now have a framework that enables us to consider strategy from an overall Company perspective, and I feel that this has made it possible to discuss how Gunze as a whole should grow.

Oka While overseeing the Management & Strategy Department, I learned that simply adding together the plans of each individual business is not enough. Our outside Directors have also provided many valuable insights by asking whether our plans truly constitute a strategy for Gunze as a whole.

In formulating the Medium-term Management Plan, we held numerous discussions with individual business divisions and managers at operational sites. Each business has its own history and its own past successes, so we carefully discussed why change was necessary and what kind of future we should aim for as we worked to determine the direction of the plan. In the process, we identified not only challenges but also new possibilities. This experience once again made me recognize the importance of advancing reform not simply by having management set the direction, but by fostering understanding and ownership among employees at the front line.

The role of the board of directors in supporting transformation

As Gunze undertakes major transformation, the role of the Board of Directors also appears to be evolving. What role do you believe the Board should play going forward?

Kida At a time of transformation such as the present, I believe the role of the Board of Directors is more important than ever. The Board is expected not only to address immediate business performance and individual issues, but also to discuss the direction of the Company from a medium- to long-term perspective. We are holding extensive discussions on such matters as the appropriate business portfolio, long-term strategy, and investment priorities. I also believe it is an important role of the Board to continuously examine whether the direction we have chosen remains appropriate in light of changes in the external environment, rather than simply assuming that a plan, once decided, should continue unchanged.

In recent years, discussions have increasingly drawn on the diverse experience and expertise of outside Directors and outside Corporate Auditors. Exchanging views from different perspectives has brought new insights and a greater awareness of issues. Precisely because we are in a period of transformation, I believe an important role of the Board is to examine management from multiple perspectives and engage in constructive dialogue with the management team.

Oka I also feel that discussions at the Board have become deeper each year. One reason is our ongoing efforts to help outside officers gain a better understanding of our businesses and operational sites.

Gunze regularly holds business briefings, factory tours, and visits to

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business sites. We also share feedback obtained through dialogue with investors and shareholders, providing opportunities for outside officers to understand the expectations stakeholders have of the Company and the issues they see. A deeper understanding of the Company leads to more substantive discussions.
In recent years, we have increasingly received advice from a broader range of perspectives, including not only the progress of structural reform but also its impact on operational sites, employee motivation, and relationships with business partners. These discussions have provided tremendous support in steadily advancing our reforms.

Dialogue with operational sites expands growth potential

We understand that you placed particular importance on dialogue with operational sites in developing the growth strategy. What insights did you gain?

Oka As we worked to give concrete shape to our growth strategy, I visited as many operational sites as possible. I went to factories, logistics bases, sales offices, stores, and other locations, placing particular importance on listening directly to the employees working there.
What I came to realize was that Gunze still has many strengths and growth opportunities that we have not yet fully utilized. Our product capabilities, technological capabilities, and brand strength, for example, are highly regarded. At the same time, there were areas where past models of success had become assumptions and were preventing us from fully adapting to today's market environment.
As I visited stores and sales floors, I identified considerable room for improvement in areas such as sales methods, product mix, and the supply chain. I also heard many proposals and concerns directly from employees in the field. Through those discussions, I became convinced that Gunze can still grow and that there is still much more we can do.
Kida President Oka's emphasis on dialogue with operational sites has been shared with the Board on many occasions. As a Board, we have also emphasized not only advancing structural reform, but also finding ways to bring out the strengths and growth opportunities that exist at operational sites.
When considering management strategy, there is an inevitable tendency to focus on figures and plans. However, it is the operational sites that actually create value. Without understanding them, it is impossible to formulate a truly effective strategy. We have continuously received reports on conditions at the front line and on employee reactions, and through these reports we have been able to confirm that reform is being advanced while gaining the understanding and acceptance of employees.
Over the past several years, I also feel that we have moved from the stage of discussing why reform is necessary to the stage of steadily implementing specific initiatives. Behind this shift, I believe, is a growing understanding of transformation not only among management but also throughout operational sites, with employees increasingly taking the initiative to make improvements themselves.

Strengthening global competitiveness and the management foundation

In the second year of stage2, Gunze has identified Business Process Reform and Strengthening Global Competitiveness and Technological Capabilities as important management policies. How is the Board discussing these themes?

Kida Given Japan's declining population and changes in market structures, we share the view that global expansion is an issue that cannot be avoided. Individual business divisions have already been expanding overseas, but the extent of those initiatives has varied by business. We are therefore now holding more active discussions on how to enhance the global competitiveness of the Group as a whole. Importantly, the objective is not simply to increase overseas sales. Operating in overseas markets exposes us to new customer needs and technological trends, while also providing opportunities to develop human resources and strengthen organizational capabilities. I believe these are important benefits in their own right.
Improving profitability and operational efficiency is also essential to competing globally. We are therefore discussing business growth



and the strengthening of our management foundation as an integrated set of initiatives.
Oka Strengthening global competitiveness is an extremely important theme when considering future growth. With the domestic market expected to contract, we need to further accelerate our expansion into overseas markets in order to achieve sustainable growth. Conducting business overseas also enables us to acquire new knowledge and experience and contributes to human resource development.
At the same time, before we can compete effectively overseas, we must first strengthen our underlying management foundation.
Through the Business Process Reform currently under way, we aim to review how we work and our cost structure and thereby strengthen our corporate structure itself. The objective is not simply to reduce costs, but to embed within the organization systems and ways of thinking that prevent waste from arising in the first place. We are drawing on external expertise in this process, but what we place the greatest importance on is accumulating know-how internally.
Through reform, employees can learn new ways of thinking and new methods and embed them as organizational capabilities. I believe this will strengthen our competitiveness over the longer term.
We will also further differentiate ourselves in high-value-added fields by more closely linking R&D with business strategy in relation to the proprietary technologies that are a source of Gunze's competitiveness.

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The Board has provided extensive advice not only on the results of the reforms themselves, but also from the perspective of whether those initiatives are ultimately contributing to future enhancement of corporate value.

Building a human resources foundation that encourages challenge and growth

Gunze is also reforming its personnel system alongside structural and business reforms. What discussions has the Board held on this subject?

Kida Personnel system reform is one of the important issues that will shape the future of the Company. The current reform aims to evolve the system so that younger employees in particular can take on challenges more readily and so that performance and capabilities are appropriately evaluated.

However, simply introducing a new system does not produce results. It is important to continuously verify whether evaluators properly understand and operate the system, whether employees find it reasonable and acceptable, and what issues arise after implementation.

We have therefore devoted considerable discussion not only to system design but also to how the system is operated. While continuing to receive reports on matters such as evaluator training, the degree to which the system is becoming established, and employee responses, we place importance on making improvements where necessary.

In an era of rapid change, I believe that creating an organization in which each employee is motivated to take on challenges and can grow through their own initiative will become a source of corporate competitiveness.

Oka We have also continued to receive advice from the Board regarding personnel system reform. At the same time, employees have expressed a wide range of opinions in response to the revisions. I regard this as evidence that they are engaging seriously with the transformation.

What we must not lose sight of, however, is the fundamental purpose of the reform. What we are aiming to create is an environment in which people who take on challenges are recognized and employees who continue to grow can thrive. Of course, there are aspects of the system that need further improvement. We therefore intend to carefully listen to employees, monitor how the system operates in practice, and make improvements as necessary. What is important is to continue evolving the system by taking a comprehensive view of diverse opinions rather than being swayed by only a limited number of voices.

People are the foundation of a company's growth. By creating an environment in which every employee can take on challenges while experiencing their own growth, I want to translate individual growth into the growth of the organization as a whole.

Governance for sustainable growth

Finally, what kind of governance does Gunze aim to establish in order to achieve sustainable growth?

Kida The structural and institutional reforms currently under way are not ends in themselves. They are initiatives designed to achieve sustainable growth beyond the reforms. At Board meetings, our discussions always take place with the question in mind: What kind of company do we want Gunze to become after these reforms?

Gunze has major strengths in the technologies, brands, and human resources it has built over its long history. I believe it is important to leverage these strengths while continuing to evolve into a company capable of adapting to a new era. As an Outside Director, I intend to continue making recommendations that contribute to enhancing corporate value over the medium to long term, taking into account the perspectives of shareholders, investors, and other stakeholders, while closely monitoring the progress of reform and the realization of growth beyond it.

Oka The reforms we are currently pursuing are laying the foundation for future growth.

We also recognize improving capital efficiency as an important management priority. By steadily translating our various reforms into tangible results, we will strengthen profitability and improve capital efficiency with the aim of achieving the ROE target of at least 8% set out in our Medium-term Management Plan. While valuing the successful experiences we have accumulated over the years, we must also change what needs to be changed in response to shifts in the environment and continue taking on the challenge of creating new value. The various reforms currently under way are not separate initiatives. They are all connected to future growth.

At Board meetings, we receive many valuable insights from outside officers with diverse experience and expertise. Being exposed to perspectives and issues that management alone might not recognize leads to better decision-making. Going forward, we will continue to engage in constructive discussions with the Board of Directors as we work to meet the expectations of shareholders, investors, and other stakeholders and achieve sustainable growth and enhanced corporate value.