Three-way discussion with Outside Directors

What is the mission of Outside Directors for the dramatic strengthening of the management base to become a true global leader?

Evolving the Board of Directors to become a channel for accelerating Murata's transformation

Shigematsu At six years, I am the longest serving member on the Board of Directors. I would like to start by lending perspective on the company. Murata always values progress made through the proper channels for everything, and it has an honest corporate culture.

The Board of Directors' environment enables every member to express opinions based on their respective expertise. The company's position is truly receptive to comments from Outside Directors. I feel that the environment makes it very easy to talk meaningfully. While the discussion at the Board of Directors' meetings aims to ascertain the prospects for each business from the perspective of motivation for monozukuri, we are also focused on shareholder profits. The Board of Directors' meeting is a forum where conclusions are reached following solid discussion, which at times include differing viewpoints.

Yasuda As noted by Mr. Shigematsu, I also want to praise Murata's corporate culture of working with a sincere and dedicated mindset on everything. There is an attitude to proactively improve everything. I am particularly aware of this in relation to the progress made in terms of governance in recent years through the activities of the Nomination Advisory Committee and the Remuneration Advisory Committee. The execution side seriously considers and plots the ideal vision for Murata, which I believe is a flagship trait of governance at Murata.

Yamamoto I have been an Outside Director for three years, but have been watching Murata and how it has evolved since the 1980s when I was an analyst. I appreciate that I am now involved at a time when Murata itself must step-up to the next stage just as there are a changeover in President from the founder to President Nakajima, major changes in the management environment and progress in technological innovation.

As the others stated, Murata is without doubt a company with effective governance, but it needs to move to the next stage. That is why I note areas where improvements could be made. To be specific, the Board of Directors can be more focused in our efforts to ensure more constructive discussion. I also feel that increased internal and external communication can improve transparency.

Shigematsu In terms of the structure for internal sharing of information, I feel that sharing has been achieved with good consideration given to the relevant departments. There is autonomous movement while grasping the information required by each individual. With regard to the information provided to Outside Directors. There are sometimes an excessive focus on specialist technology, and on occasion, even I, as someone who was involved in the management of a manufacturer, am unable to understand everything. However, we are provided with an explanation of how things relate to the strategy.

Yasuda There are times when the information is very specialized. One of the characteristics of Murata's Board of Directors is that there are regular business reports. However, the excessive details tend to eat up time with questions asked to those in execution roles. However, from this fiscal year we started an initiative to have the needed explanations and backgrounds provided ahead of time so we can focus on more essential discussions.

In addition, Outside Directors now have the opportunity to have meetings with the Chairman of the Board and the President, which enables a more candid exchange.

Yamamoto I believe the foundation is the discussion about the ideal state of the Board of Directors and the role required of Outside Directors and I appreciate that progress is made while confirming these matters.

As Ms. Yasuda said, the pre-meeting explanations and the meeting with the Representative Directors are solid initiatives. Building on that, I also participated in meetings between the Audit and Supervisory Committee Members and Representative Directors. I believe these types of meetings are very important to enable us to discuss our concerns as Outside Directors.

Regarding information sharing, the initiative to include the Outside Directors in the details of Management Committee discussions is progressing. This is a significant advancement in terms of strengthening governance.

The mission of the Outside Directors is becoming increasingly important as we move towards the next stage. This is a period when we need to increase our feedback and counsel and leverage our experience to help accelerate Murata's transformation. I believe this is one of the Outside Directors' primary objectives.

Committee activities directly connected to the Board of Directors are energized year after year

Shigematsu Similar to what Ms. Yasuda said, there has been a change in the committee activities as part of the efforts to evolve the company. . There have also been discussions about the transformation of the corporate culture. As to whether or not it is OK to simply adopt the approach to nominations and remuneration taken by overseas global companies, I am concerned that this could cause Murata to lose its uniqueness and strength. I think the issue will be how to proceed with the best structure while maintaining harmony with the corporate culture as we aim to be the global No. 1 component & Module Supplier. There needs to be sincere discussion about this point going forward.

Yasuda As a Nomination Advisory Committee Member and the Chairperson of the Remuneration Advisory Committee, I would like to discuss the activities of both committees.

Looking at last year's nomination process for President Nakajima, there was a sense of trust that the organizational structure was working. I joined in June of last year and was surprised with the transparency of the information shared by the Personnel & Industrial Relations Department. I felt confident that the right actions were being done to help prepare for the future. That said, if I had to address any issue, it would be the diversity pertaining to the development of female managers and younger and mid-level staff. Further progress is required in this area.

In regard to the Remuneration Advisory Committee, the group was extremely active due to factors such as the requirement for disclosure of the remuneration system under the revisions to the Corporate Governance Code and the Companies Act. The remuneration system is operated with great transparency. Based on Murata's approach, I feel that high levels of remuneration are not only paid to management but that there is a fair system in place based on the corporate spirit of prosperity to include all employees. I would like to seriously consider both the merits of the founder having been involved in management for a long time and the future issues and to discuss this based on transparency and impartiality.

Yamamoto This is also my second year as a Nomination Advisory Committee Member. Our primary mission is developing a succession plan. From a long-term perspective, we must assess the approach to executive nominations. In relation to the skills matrix, it is important that we discuss issues such as the composition of the Board of the Directors for our medium- to long-term goals, what skills are required, how they match the medium- to long-term management strategy, and the selection of candidates when there is a vacancy.

Presently, nominations and remuneration are separated, but are closely connected. We need to be mindful of this when thinking about future activities.

Further improvements while being mindful about the current state of governance

Shigematsu I believe that all Outside Directors share the same appreciation for governance at Murata, but we need to consider other issues that could impede our goal to be the global component & Module Supplier leader.

I am circumspect about the autonomous and decentralized organizational structure that President Nakajima advocates. Given that it ties to the Murata Philosophy, it appears to be working well. However, this could result in us being unable to enter the areas of counterparties. While having each and every employee think and work autonomously leads to Murata's strength, I also think it is important to influence each other by bouncing a diverse range of opinions off each other.

Yasuda When evaluating governance, Murata is successfully improving on the areas identified in the effectiveness evaluation.

As is the case with many Japanese companies, we recognize that an outstanding governance issue is how to enhance the Board of Directors' role and how to increase corporate value based on that engagement. For example, the prioritization of agenda items that should be discussed at the Board of Directors level, such as geopolitical risks. This is an increasingly important topic as Murata accelerates its overseas development. To better our collective understanding, we are also joined by experts such as Ms. Munakata to have active discussions on key issues. However, we need to give deeper consideration as to how we will discuss the key issues of management risk, the business portfolio, and the management strategy.

Yamamoto As Murata aims to be a true global leader, it will be essential to further enhance and implement governance and have the presence of leadership to promote this. On this point, the Murata Philosophy established by the founder plays a significant role. It includes a series of statements that could be construed as preempting today's ESG management. I believe the ability to find a means of survival by returning to the Murata Philosophy in times of doubt is a strength.

If I were to raise any issues, it would be how to contribute to the sustainable increase of corporate value, company culture development, and finding solutions to social issues. Second, it is how to fulfill our mission of providing a stable supply of products globally. A challenge is how to identify and mitigate complex global risks such as the geopolitical ones that Ms. Yasuda references and worldwide environmental issues. The third is to further strengthen the management base, as well as enhancing research and development, promoting diversity, developing human resources, and tackling supply chain problems.

Looking towards medium- to long-term growth

Shigematsu From the perspective of Murata's long-term business opportunities, Murata's strength has been to connect the individual technology areas. For example, in the past, automotive and communications have been treated as separate areas. However, the world has evolved to a point that these markets will intersect and become a mainstream business. Our past automotive and communications development success makes us well-positioned to capture long term business opportunities. In terms of challenges, managing risk and developing human resources in areas such as information security will be increasingly important, as well as tracking overseas manufacturing trends.

Yasuda There is consensus with the Outside Directors that among the 3-layer portfolio established by President Nakajima, the new business development in the third layer is the most important. At present, capacitors represent a substantial proportion of sales in the first layer. Achieving a balanced portfolio will be an issue and a focus for the future. Murata made a major turn in direction towards the realization of sustainable management by 2030. As a result, how business resilience will coexist with increasingly large capital expenditures will need to be addressed. Another matter will be how to strengthen the human resources base. While various measures are in place, as Outside Directors, we must closely observe how recruitment and development of the next generation of human resources are carried out and whether employees are able to work with increased motivation.

Yamamoto I also believe the creation of new business in the third layer is particularly important. We need a strategy that looks 10 years ahead and this needs to be worked on like a President's project for the definite implementation of the strategy. Furthermore, we must also pursue M&A possibilities, but needless to say, we have important accountability to stakeholders.

Shigematsu I spent a long time in the automotive industry. At that time, I did not realize that many Murata products had the top share in the market globally. Although we should be proud that these products are widespread throughout society, the flip side is that we have the responsibility to ensure supply. Any unexpected delay from Murata could hold up the production of items such as smartphones, automobiles, and PCs worldwide. I believe we should take pride in having such an obligation and announce that we take that responsibility very seriously so that we gain recognition.

In terms of M&A, I feel that many acquisitions have been closely aligned to our core business. While this is an important strategy, I hope that future M&A efforts will focus on areas that differ from that core business in order to create new business pillars.

Yasuda As noted by Mr. Shigematsu, our ability to communicate as a company is important. Despite the wonderful management at Murata, there has been restraint in external promotion, possibly because of the humble stance taken by the company. On this point, there has been an increase in opportunities to disseminate President Nakajima's message in the media since he took over. However, I think we also need to create opportunities for other leaders throughout the company. I believe we should also consider how to tell the Murata story in a sincere but direct way.

Murata has continued to grow by overcoming challenged and changing times. Personally, I have wondered whether Murata has been a change agent. Aiming to be the top company in the world as an innovator requires concepts and environments that can foster something outstanding. There needs to be internal systems and initiatives that can stimulate the power of imagination and disruption and that can cause the change needed to cement Murata's leadership position.

Yamamoto I will comment on matters that relate to economic and social value. There is now a requirement to actively invest in solving social and environmental issues, as well as ESG and SDG initiatives. This should not be used as a reason for reduced profitability. It is vital that we aim to increase economic value by developing and optimizing new business opportunities. It is also important to have measures to quickly rebuild businesses that continue to have low margins and to prevent diminished quality.

Now is the time when effectiveness evaluation is required – not only for the Board of Directors, but also the Outside Directors

Shigematsu In conclusion, I would like to talk about how the Outside Directors will contribute to Murata's growth. I have provided advice mainly in relation to the automotive market. I hope to have discussions at the Board of Directors' meetings on how Murata can contribute to the future of vehicles, including new urban planning and proposed approaches to help realize the next generation of mobility.

Yasuda As noted by Mr. Shigematsu, it is important to have more substantial discussion at the Board of Directors' meetings. To achieve this, agenda setting is critical. It is vital that Outside Directors utilize our own knowledge from diverse perspectives to have thoughtful discussions with those in executive positions. I hope to contribute to Murata's growth by lending my own expertise in human resources and governance.

Yamamoto A popular topic of discussion has been the effectiveness evaluation of the Board of Directors over the past 10 years. All Murata companies have made progress with measures that increase effectiveness and initiatives to disclose results. However, institutional investors have doubts about invigorating the Board of Directors. Even at Murata, I think there should be efforts to actively disclose and engage on such issues.

Finally, there will be future requirements for effectiveness evaluation of the Outside Directors, who are required to supervise execution from a more impartial and objective standpoint. Every Outside Director, including me, must fulfill our mission with renewed awareness of our required role. Like Mr. Shigematsu and Ms. Yasuda, I hope to utilize my knowledge and experience to contribute to Murata's increased corporate value by accelerating social issues and environmental initiatives.