

## A Discussion among Three External Officers

# Reforms Essential for the Realization of VISION 2030

The Wacoal Group has reached a major turning point. We have established a new business management structure and formulated a medium- to long-term management strategy framework and a medium-term management plan. Recently, three external officers discussed the challenges that the Group must overcome to realize its vision, the key points for putting the WACOAL Way into practice, and the roles external officers must perform to increase the effectiveness of business management.



**Tsunehiko Iwai**  
External Director



**Madoka Mayuzumi**  
External Director



**Minoru Shimada**  
External Audit &  
Supervisory Board Member

### More Female Officers Urgently Required

**Mayuzumi:** Based on my own experience and attributes, I see my role as to enhance corporate value over the medium to long term by providing opinions from the three perspectives of culture, women, and consumers. In particular, as an external director I endeavor to be ever aware of the perspective of women, who make up the majority of stakeholders, to view matters from both inside and outside the Group, and to “step on the brakes” when needed. For example, the Group is currently focusing efforts on the *3D smart & try* automated measurement service, which collects customer data from 1.5 million points in the space of five seconds. Given the nature of this data, thoroughgoing information security measures are essential. Further, I also try to raise issues that may be difficult for men to fully appreciate, such as health issues unique to women and the particular problems women have experienced during the pandemic.

I also wonder if the final decisions of a women's innerwear manufacturer can be properly made solely by those who do not wear the products. At present, I am the only female officer on the Board of Directors, but there should be more female in-house officers on the Board, an issue that I have been pointing out for some time.

**Shimada:** When I mention the subject on the executive side, the response is: “We would like to appoint more female officers, but it will take another three or four years.” But this is not the case at all. We must promote women now. In fact, I know of some very talented women in the Group. Of course, ability in frontline operations is different from management aptitude, but that goes for men too. As is often remarked, the position creates the person. If a person is appointed at an early stage to the position of general manager, they will grow beyond expectations. Wacoal Corp. currently aims to increase the percentage of female managers from 27.0% to 30.0% or more. However, ensuring that 50.0% of managerial positions and 30.0% of executive positions are

occupied by women would be more appropriate targets to pursue.

**Mayuzumi:** The lack of female role models within the Group makes fostering female in-house officers challenging. To avoid the appointment of token female officers, I think we need to decisively appoint a fixed number of women to the Board of Directors from the very outset. At the same time, we should introduce additional measures, such as career breaks and sabbatical leave, which are becoming common among companies in Europe. The Wacoal Group must proactively take the lead in closing Japan's gender gap, which languishes at around 120th place in the world rankings, and advance initiatives that are progressive enough to attract media attention.

**Iwai:** I completely agree. This issue needs to be discussed more deeply at meetings of the Board of Directors.

### External versus In-House Logic

**Iwai:** Along with Mr. Shimada, I was appointed at the Ordinary General Meeting of Shareholders held in June 2018. My previous position was at a cosmetics manufacturer, which, like

Wacoal, is a manufacturer focused on women's beauty. Partly because that position included responsibility for technology, my understanding is that in my capacity as an external director I am expected to provide opinions on the technical and quality-related aspects of manufacturing as well as opinions on compliance. Therefore, I never hesitate to speak up on these and other matters at Board meetings. I believe that this is how a board of directors should be. The Wacoal Group also has a corporate culture that allows such uninhibited discussions.

Of the two “gas” and “brake” functions of management, I place particular emphasis on the former. I try to support the executive side by providing advice on how best to move forward.

**Shimada:** Although an external Audit & Supervisory Board member, I am involved in activities that are beyond the scope of a corporate auditor in the narrow sense of the term. For example, I also participate in two committees in which you both participate: the Executive Nomination Advisory and Executive Compensation Advisory committees. Although I am an observer, in reality I express frank opinions in the same way as other members do.

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I originally worked in the banking industry, and subsequently, I also served as the president of an operating company for a number of years. As a result of this background, I try to examine the Wacoal Group's management from the perspective of a business manager. In other words, I am more focused on my role as an external officer than as an corporate auditor. As is the case in the banking industry, if you spend a long time in the same environment, you inevitably become steeped in the common sense of that environment. With the passage of time, Wacoal's perception of common sense and that of society are diverging. I think one of our roles as external officers is to draw attention to such divergences.

**Iwai:** I have been told that the discussions at meetings of Wacoal Holdings' Board of Directors have become much livelier since Mr. Shimada and I joined them. What is important, however, is the degree to which such discussions are incorporated into daily operations. Our statements at Board meetings will be meaningless if in-house logic continues to hold sway in frontline operations.

**Shimada:** I would like to call for a further change in mindset on the part of in-house officers. Although discussions at Board meetings have become livelier, they have yet to become in-depth deliberations on the issues we raise. There is a tendency to try to smooth over certain agenda items. I believe Board meetings should be a venue for spirited debate that stems from the participation of members who have a variety of standpoints.

**Iwai:** Several years ago, my former company underwent a major transformation when it appointed a president from outside. Looking at the Wacoal Group today, my impression is that it resembles my old company on the eve of reform. They have absolute confidence in their manufacturing, and a part of them believes that since the Group makes such good products, there can be no reason for them not to sell well. But this is not an era in which products can be sold without brand marketing. Believing that a product will sell because it is good is an outmoded and complacent attitude.

Related to this point, I am concerned that there is a lack of discussion on manufacturing at Board

meetings. For example, if a new brand is to be launched, there ought to be frank exchanges of opinions at Board meetings regarding the brand story. Such discussions will also enhance brand marketing.

**Mayuzumi:** Unfortunately, the Board did not have an opportunity to discuss the development process of the new high-end brand *Yue*, which debuted in the 2021 fall–winter season. As Mr. Iwai said, precisely because of the issues with Wacoal's brand marketing capabilities, brand-related matters should be discussed in more depth.

Beginning of Reform: Will the Mountain Move?

**Iwai:** The Wacoal Group's current situation is truly reflected in the numbers. While Europe and the United States are growing, Japan and China are struggling. I see the issues in China as being related to temporary factors such as lockdowns. Aside from China, the problem is Japan. Whenever I make this point, the answer is that the issues in Japan are attributable to lower demand resulting from a declining population, but business results prove otherwise. Despite being in the same country and in the same business environment, Wacoal Corp. has recorded operating losses for two consecutive fiscal years, while Peach John Co., Ltd., has posted high levels of operating profit.

Peach John has a fabless business model that is not vertically integrated. While outsourcing manufacturing, the company competes in the arena of ideas by focusing on such areas as planning, marketing, and advertising. Analysis of the company's stunning success clearly demonstrates the importance of brand marketing. Regrettably, despite having the example of Peach John near at hand, Wacoal Corp. has not made progress in transforming its marketing.

Wacoal Corp. also needs to rethink its approach to quality control. While adhering to a system that demands 100% perfection is admirable, the

company should examine whether this approach is incurring extra costs. I think the time has come to rebuild the quality control system so that it meets the needs of the times. This reconstruction should include greater flexibility in the management of acceptable quality levels.

**Mayuzumi:** I would like to point out two medium- to long-term issues.

First, as a company providing products intrinsically related to the human body, I would like to see an emphasis on human physicality. In the current digital age, metaverses and other virtual worlds are attracting the limelight. On the other hand, the value of flesh-and-blood experiences and reality will never disappear. In fact, the importance of such experience may, paradoxically, come to the fore. To put it another way, fusions of the digital and the real are possible. With this in mind, I have high expectations of the physique-focused research that the Human Science Research & Development Center is conducting in collaboration with other companies.

The second issue relates to environmental, social, and governance imperatives, especially environmental and social initiatives. The Group should accelerate initiatives focused on ethical consumption, fair trade, organic products, and local production for local consumption, and I would like to see the Group actively tell the outside world about such initiatives. Wacoal Group is focusing on socially responsible procurement activities that involve working with contract manufacturers to improve their working environments. Last year, the Group began disclosing a list of its major overseas contract manufacturers. The Group is also promoting traceability in its procurement activities. However, the public is hardly aware of such activities. This is related to another of Wacoal's problems, namely that it is not adept at communication.

**Shimada:** At Board meetings and other forums I have made three main recommendations. First, the Company needs to produce specific management

indicators that satisfy investors and meet their expectations. Second, the Company should present a growth strategy aimed at advancing scrap-and-build measures in loss-making divisions and maximizing the use of human, material, and financial resources. My third recommendation is for structural reform of business management that entails clarifying management responsibility, strengthening global management centered on Wacoal Holdings, and appointing female officers. The appointment of qualified outside and inside officers to further enhance the effectiveness of governance is also essential.

To quite a large degree, these recommendations have been reflected in the recently formulated VISION 2030. I commend the transfer of the Global Division to Wacoal Holdings, the establishment of the Sustainability Committee, and the formulation of the Guidelines for the Actions of Officers and Employees. The question is how to ensure that everyone puts their heart and soul into these new systems and guidelines going forward, rather than their establishment marking the end of the matter.

Carly Fiorina, an American businesswoman, famously said, "Preserve the best, reinvent the rest." This mantra calls on us to maintain the best traditions while boldly changing those that are out of step with the times. I fear that Wacoal Group officers and employees may lack a sense of crisis in this regard. The Group has been comfortable with its high shareholders' equity ratio, and net sales have remained at around the ¥200.0 billion mark for a long time. Such low growth is unacceptable for a listed company, and in the coming era steady decline is surely awaiting the Group if it continues to follow precedent and affirm the status quo. To put into practice founder Koichi Tsukamoto's vision of aiming to become a "Global Wacoal," the Group must undergo root-and-branch self-reform.

Our duty as external officers is to encourage an awareness of the need for reform among members of the senior management team. However,

only in-house managers can inculcate an awareness of the need for reform throughout the organization and ensure that the Group's 20,000 employees own the reform. I hope that the Group steadily advances reform and changes mindsets while reporting on the progress of these efforts to external officers.

**Iwai:** Three years ago, when the previous medium-term management plan was formulated, net sales of ¥300.0 billion and an operating margin and ROE above 10.0% were established as targets for fiscal 2028. However, the word "vision" was not used at all, nor was any specific process established. Subsequently, I emphasized that the previous plan did not convey a clear message at all. In this context, I think that VISION 2030 has certain merits.

In relation to the clarification of management responsibility mentioned by Mr. Shimada earlier, I think that the clear delineation of the responsibilities of the president and CEO (Group CEO), Hironobu Yasuhara, as well as the responsibilities of three directors, namely, the vice president and executive officer, Tomoyasu Ito; the vice president, executive officer, and CFO Akira Miyagi; and the executive corporate officer, Masaaki Yajima, is extremely significant. Also, the establishment of the titles CEO and CFO is the first step toward a "Global Wacoal." I hope that these three directors will work hard together and lead the Wacoal Group.

**Shimada:** Despite having a very conservative personnel policy, the bank that I used to work for recently made an unexpected appointment to the position of president, which attracted a lot of attention because such an appointment would have been unthinkable not long ago. This appointment illustrates that the banking industry feels itself to be on the edge of a precipice. I hope that the Wacoal Group's senior management team shares this sense of crisis and promotes women and mid-career hires to officer positions.



All that remains to be seen is how far employees can reform their own behavior with a view to realizing the new Mission. I believe that everything depends on this.

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**Mayuzumi:** I have been observing the Wacoal Group for eight years since I became an advisor. Frankly, my impression is that the Group is conservative, as evidenced by the fact that I have been the only female director for a long time. Such conservatism is not necessarily a bad thing; however, the Group has reached a point where it must change. As a result of the amendment of Japan's Corporate Governance Code, Mr. Iwai and Mr. Shimada have joined the Board of Directors, which has increased the liveliness of discussions. I sense that the Wacoal Group is finally beginning to change.

### Organizational Reform through Internalization of the WACOAL Way and Middle-Up-Down Management

**Iwai:** Recently, the Group defined its new Mission and updated the WACOAL Way. I was involved in the formulation of the new Mission as an advisor and offered a range of advice.

The Wacoal Group has a history stretching back more than 70 years. While inheriting corporate DNA that has been part of the organization since its founding, the Group must establish a new iteration of this legacy in lively modern language. Without a new expression of its fundamental commitments, the Group will not be able to move forward as a corporate group. All that remains to be seen now is how far employees can reform their own

behavior with a view to realizing the new Mission. I believe that everything depends on this.

**Shimada:** Since such goals and commitments are inevitably abstract, the key to embedding them in the organization lies with the Guidelines for the Actions of Officers and Employees, which were prepared in conjunction with the restructuring of the WACOAL Way. I would like officers and general managers to repeatedly discuss with their subordinates what must be done now based on these guidelines. Rather than simply saying, "Here are the behavior guidelines," thorough discussion and reinforcement are necessary. Such real communication is sure to foster leaders who will spearhead reform.

**Mayuzumi:** Ensuring that the WACOAL Way becomes ingrained in employees and permeates the entire organization is important. The philosophy's position at the core of operations will enable employees to quickly assess situations and act in accordance with the philosophy, almost without being aware of it. This is the degree to which the philosophy must penetrate the organization and become internalized by employees.

Such inculcation also relates to risk management. Responding to each risk based on separate rules would be an endless task. In other words, unless risk management is driven by

principles rather than rules, risks will not be reduced and organizational reform will not progress.

There is a famous study that focuses on the "kata" routines of thought and behavior practiced at one of Japan's flagship automakers. Such routines are the essence of Japanese culture and can only be mastered through repetition. I would like the Wacoal Group, as a Kyoto-based manufacturer, to set an example by taking the lead in developing kata routines.

**Shimada:** I think the two projects established under the Sustainability Committee are particularly meaningful. The first of these is the Project to Promote Awareness of the WACOAL Way. The middle managers participating in this project will rigorously incorporate the new Mission and behavior guidelines throughout the organization while seeking reform by placing pressure on the senior management team from below. If this middle-up-down management takes root, the Wacoal Group is sure to change.

The other significant project is the Project to Improve Women's QOL (quality of life). Both projects should actively include personnel who put themselves forward and express a desire to be part of the projects. As the QOL project is tasked with enhancing the status and roles of women in society, women sympathetic to these goals should be selected as participants.

**Iwai:** I agree with you entirely. After all, 90.0% of Wacoal Corp. employees are women.

**Shimada:** To paraphrase a female character in a television drama upon encountering the glass ceiling, I think setting 50.0% as a target for female managers would be a good idea. Alternatively, the Group could aim to have women account for 30.0% of officers as soon as possible.

**Mayuzumi:** Whether for the position of CEO or other officer positions, the Group should make it possible to "skip a

grade." Without such a level of commitment, I do not think the Group can say to society, "We have changed."

### Enhancement of the Wacoal Group's Enterprise Value

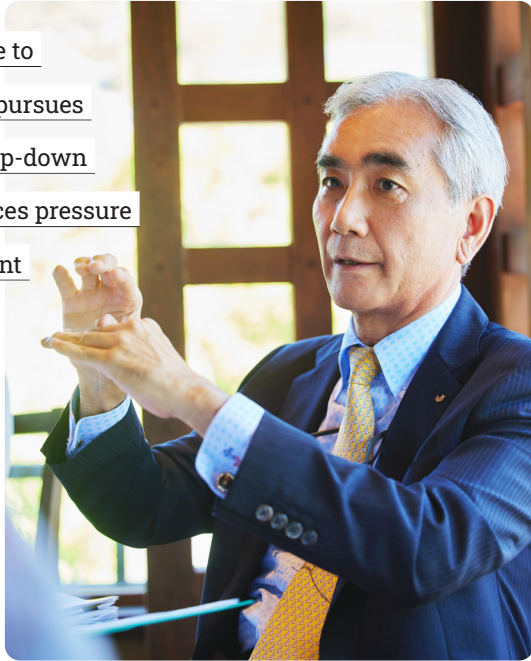
**Iwai:** Looking at the world today, I have a real sense that shareholder capitalism is approaching a major turning point. Public interest capitalism or "new capitalism" is an approach that emphasizes all stakeholders, including employees and customers. I would like all Wacoal Group employees to proactively think about how to change the Group. That is the essence of public interest capitalism.

In addition, while shareholder returns are important, fundamentally the ideal financial strategy is one that increases enterprise value and shareholder value by investing in growth. With this in mind, I would very much like to continue supporting such proactive initiatives as the 2019 acquisition of Intimates Online, Inc.

**Mayuzumi:** In improving the Wacoal Group's enterprise value, I believe that laying foundations both inside and outside the Group is indispensable. Internally, the Group needs a framework for principle-based behavior, increased diversity in Board of Directors, and an organizational culture that empowers women, as I mentioned earlier. Other in-house efforts should focus on the elimination of unconscious bias, which we should be wary of precisely because it is unconscious. Given the results of public surveys, the Wacoal Group seems unlikely to be free of such bias. Also, the Group needs a culture that does not conceal or repeat failures. I hope that the Group continues rigorously laying such foundations.

On the other hand, the establishment of foundations outside the Group means creating a new culture. For example, for the femcare business define to succeed, the concept of femcare must first become widely

The Wacoal Group is sure to change if it embeds and pursues reform through middle-up-down management, which places pressure on the senior management team from below.



recognized so that femcare products are used as a matter of course. France has such a culture, but Japan does not. Another type of culture lacking in Japan is a "madame" culture. French culture views mature women as attractive. On the other hand, I think there is still a tendency in Japan to be overly concerned about age. Against this cultural backdrop, many women in Japan suddenly become "old ladies" after reaching a certain age and become indifferent to their own appearance. If an "attractive madame" culture is fostered, mature women may begin enjoying fashion and taking a greater interest in innerwear. The development of such a culture will also require a change in the values of society as a whole.

At one time, the idea of transforming women's physiques through apparel did not exist in Japan. By introducing Western innerwear to the country, the Group's founder Koichi Tsukamoto revolutionized Japan's apparel culture. I hope that the Wacoal Group creates a new culture with a comparable impact.

**Shimada:** The management team's role is to put spirit into such tools as the new Mission, VISION 2030, and new organizations. Therefore, changing the mindset of in-house officers is a prerequisite for realizing day-to-day communication that spreads a reform-focused attitude Groupwide.

Another requirement is the utilization of personnel as a management resource. To repeat, the Group needs to bring forward the promotion of women to middle management and increase the percentage of women in management positions.

We must steadily accumulate achievements one at a time. Such efforts will earn the further trust of investors and other stakeholders and enhance enterprise value over the medium to long term. As external officers, we will do our utmost to help realize a new Wacoal Group.

