

## **Analysis: Concerns over director appointments by Japan's founding families**

**Shareholders need to monitor recommendations for transparency and competency.**

by **Kazutaka Kuroda** | August 12th, 2016

In the first half of 2016, we found several corporate top management nominations in Japan where the companies' founding families seemed to have had a strong influence. They include SoftBank Group, which has recently been in the news for its £24.3bn acquisition of ARM, as well as Cookpad, Idemitsu Kosan, Secom, and Seven & i Holdings.

Such practices are not considered as corporate governance 'problems' in Japan. However, shareholders are wary of the influence of founding families over such decisions, especially if their rights become subordinated. That said, families as stakeholders also contribute to long-term sustainable value creation by building strong corporate culture and business models. Accordingly, shareholders should monitor whether founding families' plans for top management nominations are transparent and effective enough to maintain that value creation. To do this, Japanese companies should mirror best practice in other developed countries such as the skill matrix for disclosing director qualifications designed by North America's Council of Institutional Investors. Companies could use this matrix to let shareholders see at a glance what each board candidate brings to thinking around desired board composition and future business strategy. They can then explain to shareholders how candidates match the desired board composition.

One problem with the companies mentioned below is that the skills and competencies of the family nominated board members are not well diversified compared to their global peers. For example, in the cyclical consumer goods & services sector that Seven & i Holdings belongs to, the following skills and experience were deemed by multiple companies as necessary: diversity, finance/accounting, global experience, government/regulation, human resources, leadership, marketing/sales, retail industry, and technology.

Seven & i Holdings' director convocation notice illustrates that finance/accounting, leadership, marketing/sales, and retail industry skills/experience were covered by at least three nominees, which would be a minimum level. Of course, Seven & i Holdings does not have the same business strategy as its global peers. However broad skills/experience

criteria used internationally are a good benchmark for directors. Companies should also explain how they differentiate between the skills and competencies of various board directors in order to stay competitive, and then disclose these for shareholder approval.

The companies where we have flagged up concerns are:

- SoftBank Group, a provider of mobile and fixed telecommunication services. Mr Masayoshi Son, the company's founder, assigned Mr Nikesh Arora as a representative director, president and COO and stated that Mr Son would retire in a few years and Mr Arora would succeed him. However Mr Arora quit on 22 June 2016, after Mr Son changed his mind over retiring in the near future.
- Cookpad, a recipe contribution and search website operator. Mr Akimitsu Sano, the company's founder, made a shareholder proposal with other three shareholders to replace all board directors except himself with new members, negating the company's Nomination Committee recommendation of 19 January 2016. Finally, he dropped his proposal on 24 March 2016, since the board accepted the appointment of five new board directors he suggested.
- Idemitsu Kosan, a petroleum and petrochemical supplier. Its founding family was against a reappointment of its board directors on 28 June 2016, since the family opposed a merger plan with Showa Shell Sekiyu, its competitor in Japan. Although the reappointment of the board directors was approved at its annual general meeting, the percentage of the vote for the reappointment was limited to around 60%.
- Secom, a security service provider. Its Nomination and Remuneration Committee recommended the resignation of Mr Shuji Maeda and Mr Hiroshi Ito as the company's CEO and COO on 11 May 2016 to enhance corporate governance and employee support. It was reported that the Committee was chaired by Mr Makoto Iida, the company's founder.
- Seven & i Holdings, a major general retailer. Its Nomination and Remuneration Committee recommended the company's board discussion and decision on the resignation of Mr Toshifumi Suzuki CEO and Mr Noritoshi Murata COO on 19 April 2016. Mr Suzuki and Mr Murata had been the CEO and the COO of Seven & i Holdings for 10 years. Furthermore, Mr Suzuki had been appointed as the CEO of its major subsidiaries, Ito Yokado for 10 years and Seven Eleven Japan for about a quarter-century. It was reported that the resignation was accepted by Mr Masafumi Ito, its chairperson emeritus and a member of the founding family.

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