

# CORPORATE GOVERNANCE

## ROUNDTABLE DISCUSSION AMONG EXTERNAL DIRECTORS

### Ongoing Evolution of the Fujitsu Group's Corporate Governance



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Based on the philosophy set out in the Fujitsu Way, Fujitsu works tirelessly to improve its corporate governance with a view to medium- to long-term growth and corporate value enhancement. Progressive measures to strengthen corporate governance systems have resulted in the Board of Directors being comprised of at least as many non-executive directors as executive directors and the establishment of an Independent Officers Council, comprising external directors and external Audit & Supervisory Board members.

We invited the external directors to discuss the changes in the Board of Directors that have resulted from the improvements to our corporate governance structure.

—Since becoming an external director at Fujitsu, have you seen changes in the Board of Directors? If so, how has it changed?

**Jun Yokota:** I was appointed as an external director at the Annual Shareholders' Meeting held in June 2014, so this is my third year on the Board of Directors. My impression is that the Board's discussions have changed quite considerably compared with those we had when I began attending meetings. Initially, I felt that there was a slight defensiveness in response to external directors' statements at times. Recently, however, there has been an atmosphere of openness that has encouraged us to speak frankly about anything.

**Miyako Suda:** The seating arrangements at meetings made an impression. Now, non-executive directors and executive directors sit around the table randomly, but three years ago, executive directors sat on one side of the table while non-executive directors sat facing them on the other side.

**Atsushi Abe:** It used to be the case that when external directors questioned something, the responsible officer would explain strenuously that there was no problem concerning the matter being discussed. It was almost as if we had made an accusation against the person. Normally, a board of directors' meeting should be a place where executive directors and non-executive directors exchange opinions, identify issues, and together find ways of addressing the issues. Boards that operate in this fashion are productive and are able to fully realize their oversight functions.

**Chiaki Mukai:** This is the first time that I have served as a director, so I cannot make comparisons with other companies. However, I feel that meetings of the Board of Directors have changed quite a lot since I began attending them in the summer of 2015. At first, they were a venue for reporting on the progress of business management. Recently, they have become more of a forum for open discussions that include real matters of concern. I think this may be attributable to the beneficial effect of the Independent Officers Council.

—What are the functions of the Independent Officers Council? Specifically, what type of changes has the Independent Officers Council encouraged in the Board of Directors?

**Mukai:** As a director, discussing policies from a long-term viewpoint calls for surveying the Fujitsu Group's whole profile as a corporate group. And, grasping the whole profile requires knowledge. At meetings of the Independent Officers Council, we focus on one or two topics and examine them from many different angles. This makes the meetings very good opportunities to acquire knowledge and debate and exchange opinions freely.

**Abe:** Partly because Fujitsu's business field is information and communication technology (ICT), we need to obtain more knowledge, including knowledge about specialized fields. My understanding is that the Company established the Independent Officers Council after external officers expressed a desire to know more about the Fujitsu Group and its businesses. When meetings began in July 2015, the council mainly augmented our knowledge. Now, however, its role as a forum for debate has expanded.

**Yokota:** A problem we all face is that in-depth discussion of any single matter is difficult because the Board of Directors must examine and issue resolutions on an extremely wide range of matters. At the Independent Officers Council, we are able to ask questions and state opinions from a variety of perspectives, and we can ask any question, no matter how basic. This is having a favorable effect on the Board of Directors.

**Suda:** External directors and external Audit & Supervisory Board members are the council's main members. We select a topic in light of the Board of Directors' agenda and invite an executive director to participate in a council meeting to provide explanations and exchange opinions with us. Whether we are trying to understand a topic or having a heated discussion, each meeting is exhausting because we truly give everything we have got. For the same reason, I believe we contribute to the efficiency of the Board of Directors.



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—In addition to the Independent Officers Council, Fujitsu has initiated several measures relating to governance systems and management since June 2015. How do you view such initiatives?

**Suda:** The appointment of Mr. Duncan Tait as the Group's first non-Japanese director has been a significant change. Listening to his reports and discussing matters directly with him has given me a strong sense that the speed of decision making in other countries is different from that in Japan. Recently, I have told executive directors that postponing decisions to allow executive directors to give full explanations on matters is tantamount to "the tail wagging the dog."

**Abe:** The balance and diversity of the Board of Directors have improved. The Board that the Annual Shareholders' Meeting appointed in June 2016 comprises five executive directors and five non-executive directors. In addition, the Board has included two female members and a non-Japanese director since 2015. I think these changes in the makeup of the Board are contributing to the greater liveliness of discussions mentioned earlier. The increase in the channels by which we can provide feedback to the senior management team merits praise. As well as the Independent Officers Council, there are opportunities for external directors to meet and talk one-to-one with the president and corporate executive officers. In another new initiative, I spoke directly with an institutional investor in my capacity as an external director and shared the content of the discussion with the Board of Directors in August 2016. I think such initiatives benefit the Board and should be continued.

**Yokota:** The holding of a meeting of the Board of Directors in London for the first time in February 2016 was a good opportunity to highlight the Fujitsu Group's diversity. As well as furthering my understanding of the businesses in Europe, the Middle East, India, and Africa (EMEIA), the trip gave local employees and Board members opportunities to talk directly and thereby get to know each other as coworkers in the Fujitsu Group, rather than as the somewhat distant, abstract individuals that we had been to each other. Given that local

employees said speaking with us directly and receiving recognition for their achievements in the day-to-day operations boosted their motivation, I think the trip was very worthwhile.

**Mukai:** One thing that particularly pleased me about the visit to London was listening to young employees talk about their pride in belonging to the Fujitsu Group. It was great to get a firsthand sense of the achievements in personnel development. I particularly appreciated this experience, because to heighten corporate value over the medium to long term, the Fujitsu Group needs to consider how to raise the value of all assets, not only business activities and strategies but also personnel and technical expertise.

—What needs to be strengthened to heighten the effectiveness of the Board of Directors?

**Abe:** As a Japanese company, Fujitsu's corporate governance is advanced. However, there is room for improving evaluations of the Board of Directors' effectiveness and individual directors' performances. I am also the external director of a U.S. company. Once a year, members of the board of directors evaluate its functions to check its effectiveness. Also, the company has a system whereby individual directors strive to improve in light of the one-to-one feedback on their performance that the chairperson offers. Also, in U.S. companies individual directors participate in considerable education and training to improve their abilities.

**Mukai:** I would welcome feedback regarding whether external directors are adequately performing the oversight and advisory functions expected of them and whether they are meeting shareholders' expectations. If the Company has requests, we can consider whether there is anything we can do in response. Also, I think such efforts would invigorate the Board of Directors.

**Yokota:** I agree, because all I can say at present is that I think we "seem to be helping," judging from the many different types of work the Company asks us to do.

**Suda:** In addition to annual feedback, which is of course required, I think it is necessary to improve the cycle whereby executive directors explain how they responded to the various opinions stated at meetings of the Independent Officers Council and the Board of Directors. I mention this because, at the moment, we are occasionally merely stating opinions without any follow up. If executive directors explained how they had used the opinions or gave reasons why they could not act on such opinions, the external directors would also be able to progress.

**Abe:** The role of a board of directors is to provide oversight and recommendations, not to put forward critiques. Therefore, action should follow the statement of an opinion.

**Mukai:** From the viewpoint of improving the functioning of the Board of Directors, I would like more information on the big picture. For example, we know from reading various documents and receiving reports at meetings that the Group is pursuing a variety of initiatives regarding artificial intelligence. Inherently, the Board of Directors should discuss the strategies and timing of the Group's efforts to win out against competitors. However, the current situation is frustrating because when we examine individual matters, their connection to overall strategies is not always sufficiently explained. I would like to devote time to forward-looking discussions that encompass future directions, initiatives the Group plans, and the pace at which it plans to tackle them.

**Abe:** The Fujitsu Group's businesses cover a wide area. Consequently, the Board of Directors discusses a broad spectrum of topics, including technology, markets, personnel, and diversity. Given the difficulty of everyone discussing every topic, one approach might be to establish subcommittees for each topic.

—Are there any issues with regard to the executive compensation system?

**Abe:** Personally, I agree with more clearly basing compensation on performance. I think it would provide a positive incentive because taking responsibility for results is already part of the mindset of the Fujitsu Group's managers.

**Yokota:** I also agree with on-target bonuses\*<sup>1</sup> as a policy. That said, problems can arise if systems encourage the setting of easily attainable targets. Therefore, there is a need for further discussion on setting targets and methods of evaluating business results.

**Suda:** Taking into account its earnest, sincere corporate culture, the Fujitsu Group probably would not set low targets. However, it is important that as a whole compensation systems provide rewards that appropriately reflect long-term as well as short-term business results.

**Mukai:** The only way to heighten corporate value is to heighten the value of all Company assets, including personnel. Accordingly, shareholders and investors will certainly be amenable to rewarding leaders who achieve this.

—In recent years, medium- to long-term management in relation to the environment, society, and governance has become a focus of attention. What is your view of the Fujitsu Group's measures for the environment and society?

**Suda:** The way in which Fujitsu promotes its initiatives may be an issue. Unfortunately, greater society's awareness of the efforts of the Group does not match Fujitsu's extensive involvement in many different initiatives. Also, there is a tendency to focus simply on social contributions rather than on leveraging initiatives for business growth.

**Mukai:** The problem is perhaps that, while the Group is attempting to leverage initiatives in businesses, its activities are slow and diffuse. My point here relates to my earlier remark about the big picture. For example, the chairman and president have stated that they see the United Nation's Sustainable Development Goals,\*<sup>2</sup> or SDGs, as a business opportunity, and through individual projects, the Group is tackling a range of different initiatives that are producing results. However, I cannot discern an overall strategy or which of the 17 SDGs the Fujitsu Group is concentrating on.

**Yokota:** As a corporate group engaged in ICT businesses, the Fujitsu Group consumes large amounts of electricity. As such, there is scope to demonstrate more sensitivity to the issue of



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energy consumption. While saying that it is a global corporate group, the Fujitsu Group has a surprisingly Japan-based outlook. In establishing environmental and social strategies, the Group should adopt a more global perspective.

**Suda:** Also, it is necessary to clarify the costs associated with environmental, societal, and governance initiatives. Last year, the Group's subsidiary in the UK received a prestigious commendation in the corporate social responsibility field—the Responsible Business of the Year 2015 Award.\*<sup>3</sup> When I visited London, one of the people responsible for the company's initiatives in the field mentioned the considerable cost of initiatives. This gave me pause for thought. Despite the large number of initiatives the Group conducts in Japan, there is little awareness of their cost. Clarifying the scale of costs will motivate the Group to leverage initiatives in businesses.

**Mukai:** In London, I spoke with an employee who works in Scotland usually but visits London periodically to attend meetings. By giving such arrangements greater exposure, the Group could demonstrate to both external and internal audiences the potential for using the Group's technology to work in remote locations at home and also for creating workplaces that energize employees. I think this would boost employee motivation.

**Abe:** In a corporate group like the Fujitsu Group, which is large and covers a wide business field, it is not possible to inform every person about everything. With respect to strategies, it is necessary to set simple goals and advance Group-wide efforts to reach them. Moreover, the Group should communicate these goals in plain language.

—To conclude, what are your goals as external directors?

**Mukai:** Junior employees provide support to each external officer as part of the secretariat-related functions of the Independent Officers Council. This provides an excellent opportunity to listen directly to the views of the young employees who will one day lead the Fujitsu Group. Also, it allows me as an older person to tell them what I have learned from my experiences. While participating as an external director in discussions based on broad perspectives, I want to be useful as a mentor for junior employees.

**Suda:** Fujitsu is a company with a strong desire to acquire and reflect a range of different feedback from people, also including those from outside the Group. Nonetheless, I feel that many of the agenda items that the Board of Directors handles are treated as if they are already being close to conclusion. I want to use the Independent Officers Council and other means to contribute more to the process and play a role that entails questioning the direction of discussions themselves.

**Abe:** In this discussion, we have mentioned various areas that require improvement. I think we are still in the initial stage, and as such we have made a fairly good start. With my sights set on the Fujitsu Group's future, I will fulfill my role to help enable free and vigorous discussions.

**Yokota:** I view the Fujitsu Group in a positive light as a corporate group with many excellent qualities. On the other hand, I think the Group needs to be more proactive in leveraging these qualities to fully realize growth. As a director, I will encourage the Group's efforts in this respect.

\*1 This primarily refers to systems that use consolidated net sales and consolidated operating income as indicators and that determine bonuses based on the degrees of attainment of business result targets for a fiscal year.

\*2 The United Nations General Assembly unanimously adopted the SDGs in September 2015. There are 17 SDGs, which comprise 169 targets relating to people, the Earth, and nutrition. International society is tasked with reaching these goals by 2030.

\*3 Presided over by HRH The Prince of Wales, the British nonprofit organization Business in the Community gives this award in recognition of companies that engage in initiatives to realize an equitable society and a more sustainable future.