

# Fujitsu's Corporate Governance from the Perspective of an Independent Director

March 17, 2020

Fujitsu Limited

Independent Director

Chairman of the Board of Directors

Atsushi Abe

# Background and Board Experience

- Consistently engaged in business development, investment banking and principal investment for TMT sector
  - ✓ Trading Company: MITSUI & CO.
  - ✓ Investment Banks: Alex. Brown (Deutsche Bank), Sangyo Sosei Advisory
  - ✓ Investment Fund (PE): JP Morgan Partners Asia (CCMP Capital Asia)
  
- Non-Japanese companies experience
  - ✓ Work outside Japan – 13 years (of which 11 based in Silicon Valley)
  - ✓ Experience with non-Japanese companies – 17 years
  
- Experience as an external director
  - ✓ Edwards (May 2007 – Oct. 2009) – Non-Listed
  - ✓ On Semiconductor (Feb. 2011 – Present) – Listed on Nasdaq
    - Audit Committee, Member (2015~ Present)
    - Science & Technology Committee, Member (2019~ Present)
    - Integration Oversight Committee, Chairman (~2019)
    - Compensation Committee, Member (~2016)
  - ✓ Fujitsu (June 2015 – Present) – Listed on TSE1

- One of the most progressive corporate governance companies in Japan
- Progressiveness spurred from within, not by external pressure
- The executive management supports progressive initiatives formulated by the corporate governance group of the legal department
- Shares the need and value of independence, objectivity and diversity
- Independent directors chair nominating and compensation committees (since fiscal 2019)
- Independent director chairs the board of directors
- Company's proposals for the Annual Shareholders' Meeting in June 2020
  - ✓ Executive to non-executive ratio 3 : 7
  - ✓ Independent director ratio 5 : 5
  - ✓ Female to male ratio 2 : 8
  - ✓ Non-Japanese to Japanese ratio 1 : 9

- Requirements for listing
  - ✓ Majority of the board must be independent directors
  - ✓ Nominating committee, compensation committee, and audit committee must be established
- For most companies...
  - ✓ Two executive directors: CEO and CFO
  - ✓ Quarterly board meetings (vs. monthly in Japan)
- Companies seek to appoint independent board members with diverse backgrounds and experiences relevant to their businesses. Most directors have extensive business experiences and rare to see lawyers, accountants and ex-police or government officers appointed to the board.
- Majority of companies separate CEO and Chairman of the Board roles (companies with CEO/COB separation became majority in 2017 at S&P500 companies and is an increasing trend)
- Executive compensation amounts and detailed reasons for those amounts are required to be disclosed.
- The CEO and CFO are held personally accountable for the accuracy of the results and disclosures (SOX).
- At shareholder meetings, most shareholders vote on the agenda by proxy with few physically participating.
- Although the current president is asked for their opinion on the next candidate president, they do not command the nomination of the next president as in Japan.

## ■ Phase 1:

- ✓ Two independent directors (to comply with Corporate Governance Code)
- ✓ Monthly business report and approval of matters that requires board resolutions (by Company Law or internal code) are the main agenda items
- ✓ Explanations are given to independent directors in advance, and the board of directors basically approves decisions made by the executive management with few questions asked


## ■ Phase 2:

- ✓ Focus of the meetings are discussions on business performance, board resolutions, and growth strategy
- ✓ Executive management prepare decent materials
- ✓ Independent directors actively ask questions to the executive management and based on explanations most proposals are approved.
- ✓ Most items are ticked on the corporate governance code checklist

## ■ Phase 3:

- ✓ Wide-ranging and interactive discussions on important issues for the future of the company, such as management strategy, capital policy, HR policy, KPI management, risk management, and disclosure, in addition to business performance and board resolutions
- ✓ Discussions are not open-ended, but action plans for specific topics are committed by the executive management with target dates
- ✓ A reasonable sense of distance and tension should be maintained between independent directors (including non-executive directors) and executive management to ensure objectivity

- Full support for President Tokita's executive team and management direction
- Promotion and support of discussions on specific business strategies and measures in line with management direction
- Accelerate the shift from "business structure transformation" to growth strategy centered on "transformation towards becoming a DX company"
- Introduce disclosure that enables shareholders and the market to understand the progress and potential of our growth strategy, and revise KPIs accordingly
- Cultivating a culture that does not lead to problems typically associated with very large corporations (positively encourage agility, focus, open innovation, diversity and different cultures)
- Introducing new perspectives and ways of thinking that are not tied to corporate culture evolved on Fujitsu's legacy business success
- Thorough follow-up on approved projects
- Ensuring the effectiveness of directors and the board of directors
  - ✓ Assessment of the effectiveness of the board of directors, as well as the introduction of directors' individual performance evaluation, training, and self-improvement requirements
- Ensuring further independence, objectivity and diversity
  - ✓ Diversification of backgrounds of independent directors
  - ✓ Appointment of additional independent directors at the right time
- Use Fujitsu's evolution of ESG as a model case for increasing corporate value



**FUJITSU**

shaping tomorrow with you