

The Japanese Corporate Governance Model

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Abstract: *This assignment examines the Japanese Corporate Governance model and its impact on a large Japanese company - SoftBank. It explores the traditional features of the Japanese model, including the importance of the board of directors, the close relationships with stakeholders, and the emphasis on long-term stability. Through a case study approach, the paper examines how SoftBank has implemented corporate governance practices, the challenges it faces in implementing reforms, and the impact of corporate governance on their performance. Overall, the paper highlights the unique aspects of the Japanese Corporate Governance model and the efforts of Japanese companies to balance traditional practices with modern reforms.*

1. Introduction

Japan has a unique corporate governance model that is shaped by its history, culture, and legal system. Traditionally, the Japanese approach to corporate governance has emphasized long-term stability, consensus building, and cooperation among stakeholders.

One of the key features of the Japanese corporate governance model is the importance of the board of directors. Japanese companies have a two-tier board system, which consists of a board of directors and a board of auditors¹. The board of directors is responsible for making strategic decisions and overseeing the company's management, while the board of auditors is responsible for monitoring the company's financial reporting and internal controls.

Another key feature of the Japanese corporate governance model is the close relationship between companies and their stakeholders. Japanese companies often have close ties to their suppliers, customers, and employees, and these relationships are important sources of competitive advantage.

This paper explores the Japanese corporate governance model through a case study approach where the capital structure of a few listed Japanese companies is used as a basis to develop an understanding of the model and the efforts made by such companies to balance traditional practices with modern reforms.

2. Key players in the Japanese Model

The Japanese system of corporate governance is many-sided, centering around a main bank and a financial/industrial network or *keiretsu*. The main bank system and the *keiretsu* are two different, yet overlapping and complementary, elements of the Japanese model. Almost all Japanese corporations have a close relationship with main bank. The bank provides its corporate client with loans as well as services related to bond issues, equity issues, settlement accounts, and related consulting services. The main bank is generally a major shareholder in the corporation. In the US², anti-monopoly legislation prohibits one bank from providing this multiplicity of services. Instead, these services are usually handled by different institutions: commercial bank - loans; investment bank - equity issues; specialized consulting firms - proxy voting and other services

¹ Audit and Supervisory Board

² Anglo-Saxon model of Corporate Governance

2.1 Key players

In the Japanese model, the four key players are:

- main bank (a major inside shareholder),
- affiliated company or keiretsu (a major inside shareholder),
- management,
- and the government.

The interaction among these players serves to link relationships rather than balance powers

2.2 Share Ownership Pattern in the Japanese Model

In Japan, financial institutions and corporations firmly hold ownership of the equity market. Like the trend in the UK and US, the shift during the postwar period has been away from individual ownership to institutional and corporate ownership. In 1990, financial institutions (insurance companies and banks) held approximately 43 percent of the Japanese equity market, and corporations (excluding financial institutions) held 25 percent. Foreigners currently own approximately three percent. In the Japanese model, banks are key shareholders and develop strong relationships with corporations, due to overlapping roles and multiple services provided.

2. SoftBank Group

SoftBank Group Corp. [TYO: 9984] (herein after known as SBG) operates as a holding company which engages in the management of its group companies. It operates through the following segments: SoftBank Vision Fund, SoftBank, Arm, Brightstar, and Others. The SoftBank Vision Fund segment engages in the investment business. The SoftBank segment provides mobile communication, broadband, and telecom services in Japan. The Arm segment designs microprocessors and develops software technologies. The Brightstar segment engages in the distribution of mobile devices overseas. The Others segment includes the smartphone payments business, alternative investment business, fund business in Latin America and the operation of baseball teams. The company was founded by Masayoshi Son on September 3, 1981, and is headquartered in Tokyo, Japan (SoftBank Group, n.d.).

SBG does not identify itself with a traditional *keiretsu* but has derived a significant portion of its corporate governance model from it. The bank has a primary lender, it has significant institutional ownership, primarily financial groups, and banks, it has a two-tier board; The Board of Directors and the Audit & Supervisory Board (*Kansayaku* 監査役). The company practices crossholding of ownership and interlocking of directors within its subsidiaries and associates. The company, led by enigmatic founder Masayoshi Son, is taking a unique approach that is a mix of traditional Japanese “keiretsu” and a western style holding company.

2.1 Board Structure

2.1.1 Board of Directors

SBG’s Board of Directors consists of members with a wealth of knowledge and experience in business management and a global perspective, in consideration of their nationality, ethnicity, gender, or age³. The maximum number of Board Directors is set at 11 under the Articles of Incorporation. As of June 24, 2022, the Board of Directors consisted of nine members (five of whom are external) and includes two foreign nationals and one female (Annual Report, 2022).

³ Indicates a diverse composition of board members (See Table 1 at the end of this document)

2.1.2 Corporate Officer System

Nearly two decades after Sony introduced corporate officers to Japan in 1997, a growing number of companies are opting out of what had become a well-established system as closer attention to governance exposes its flaws.

The shift comes amid a push to improve corporate governance. The governance code that took effect in June 2015 calls on Japanese companies to strengthen the oversight function of directors. The aim is to have outside directors monitor and advise the officers handling daily operations.

SBG adopted a Corporate Officer system in July 2012 to further strengthen its business execution functions. In November 2020, SBG clarified the individuals responsible for business execution by separating the management decision-making function from the business execution function (Annual Report, 2022).

2.2 External (Independent) Board of Directors

SBG elects Independent External Board Directors in accordance with the independence criteria set by the Tokyo Stock Exchange. The Board elects Independent External Board Director candidates who can contribute to increasing corporate value through their qualifications, ability, and deep knowledge in their fields of expertise.

SBG also elects candidates for their ability to actively participate in constructive discussions and frankly express their opinions. SBG ensures adequate independence of each of the External Board Directors, who bring a wealth of knowledge and experience to the Board related to business management and other matters. Each of them actively participates in discussions at the Board meetings, and SBG makes management judgments and decisions based on these discussions.

2.3 The Audit & Supervisory Board

Audit & Supervisory Board members attend Board of Directors meetings, allowing them to monitor and verify decision-making by the Board and fulfillment of the Board's obligation to supervise the execution of duties by each Board Director. Moreover, to audit the execution of duties by the Board Directors of SBG, Audit & Supervisory Board members receive regular reports from and conduct interviews as necessary with Board Directors, employees, auditors of major subsidiaries, and other personnel (SoftBank Group, 2022).

The Audit & Supervisory Board consists of four External Audit & Supervisory. The Audit & Supervisory Board meets once a month, in principle. At these meetings, the audit policy and plan are formulated, and details of various internal and external meetings attended only by full-time members are reported to part-time members. In addition, the Audit & Supervisory Board explains details of the audit plan for each fiscal year, interim audit status, and audit results to the Board of Directors. Furthermore, the Audit & Supervisory Board determines the appropriateness of reappointing the Independent Auditor each fiscal year.

2.4. Cooperation between the Audit & Supervisory Board members, the Independent Auditor, and the Internal Audit Office

The Audit & Supervisory Board members receive regular briefings from the Independent Auditor (Deloitte Touche Tohmatsu LLC) on the audit plan, quarterly reviews, audit results, and other matters. The two parties also cooperate as necessary by exchanging information and opinions, among other measures. Furthermore, the Audit & Supervisory Board members receive briefings from the Internal Audit Office, which is responsible for SBG's internal audits, about the audit plan and the results of internal audits performed on each department of SBG.

and its major subsidiaries. The two parties also cooperate as necessary by exchanging information and opinions, among other measures.

The Independent Auditor receives explanations from the Internal Audit Office on the audit plan and, when necessary, on the results of internal audits and other matters.

2.5 Shareholding Pattern of SoftBank Group

Major shareholders

As of March 31, 2022

Name	Number of shares held (thousands)	Percentage of total shares issued (%)
Masayoshi Son	460,161	27.94
The Master Trust Bank of Japan, Ltd. (Trust Account)	294,958	17.91
Custody Bank of Japan, Ltd. (Trust Account)	100,460	6.10
JP MORGAN CHASE BANK 380763	29,066	1.77
STATE STREET BANK WEST CLIENT-TREATY 505234	20,423	1.24
SON CORPORATION LLC	19,060	1.16
Custody Bank of Japan, Ltd. (Securities Investment Trust Account)	18,742	1.14
SON ASSETS MANAGEMENT LLC	18,504	1.12
SSBTC CLIENT OMNIBUS ACCOUNT	18,218	1.11
JP MORGAN CHASE BANK 385781	17,119	1.04
Top 10 Shareholders	996,711	60.53

Although SoftBank does not affiliate itself to any traditional keiretsu, it has close ties with Mizuho Financial Group, its primary lender.⁴

3. Conclusion

SoftBank Group's modern corporate governance practices demonstrate a commitment to transparency, accountability, and shareholder value. The company has implemented several measures to improve its governance structure, including the appointment of independent directors, the establishment of a risk management committee, and the adoption of a performance-based executive compensation system.

Moreover, the company has established a comprehensive code of conduct⁵ and ethics that guides the behavior of its employees, executives, and board members. This code emphasizes integrity, transparency, and ethical behavior, promoting a culture of accountability and responsible business practices.

Overall, SoftBank Group's modern corporate governance practices position the company for long-term success, enabling it to navigate complex business environments and deliver value to its shareholders, employees, and customers.

Since SoftBank operates in many different geographies, it is imperative that the central management take decision in interest of all stakeholders. SoftBank has stood the test of time, be it the financial crisis of 2008 or the dot com bubble of the early 2000s. Furthermore, it paves for many Japanese businesses to embrace the long-awaited changes in corporate governance practices as demanded by Japanese regulators and that is where SoftBank comes in as a prime example of successfully embracing changes and being a great business.

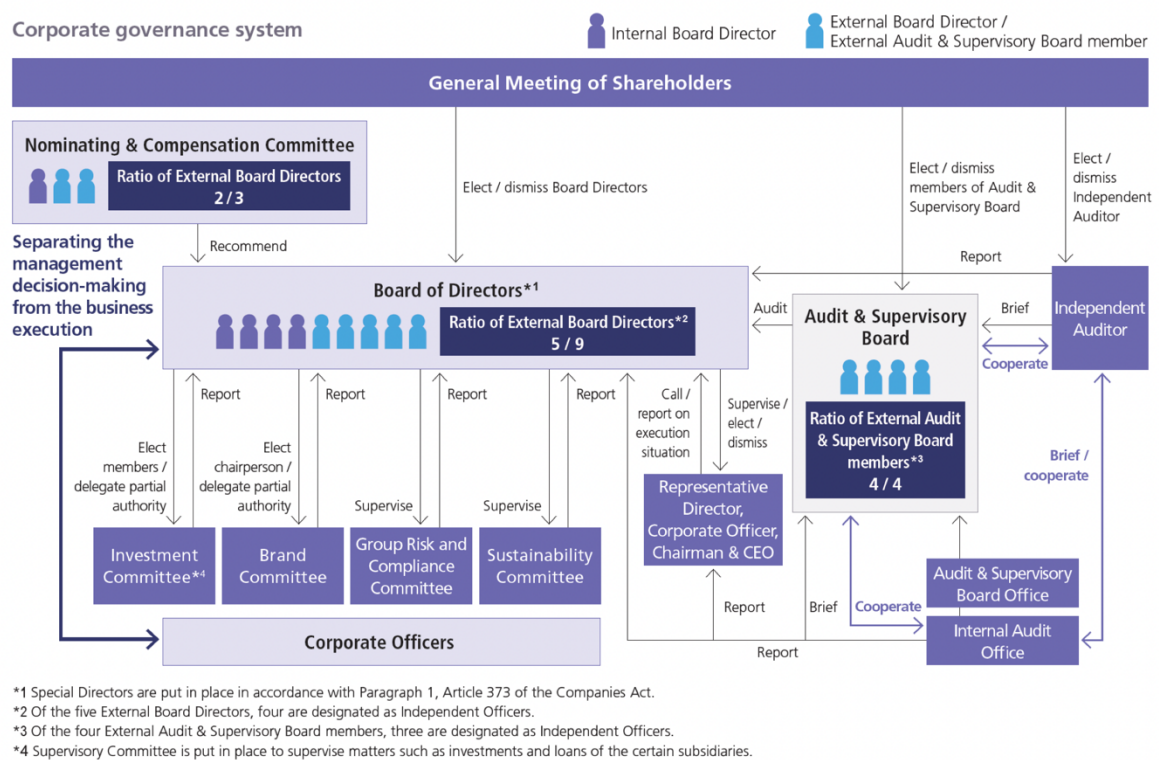
⁴ Furthermore, the company has a high institutional shareholding (including international shareholders). JP Morgan Chase is the conglomerate's primary international bond custodian. The Master Trust Bank of Japan is promoted by Mitsubishi UFJ Trust and Banking Corporation, a subsidiary of the MUFG Financial Group.

⁵ The SoftBank Group has implemented a group wide code of conduct. Available at: https://group.softbank/en/about/compliance/code_of_conduct

Appendix

	Name	Areas of expertise particularly expected by SBG (up to three areas)						
		Corporate management	Banking / M&A	Finance / Accounting	Law / Governance	Technology	Academic background	Diversity
Board Director	Masayoshi Son	✓	✓			✓		
	Yoshimitsu Goto	✓	✓	✓				
	Ken Miyauchi	✓	✓			✓		
	Kentaro Kawabe	✓	✓			✓		
	Masami Iijima	✓	✓		✓			
	Yutaka Matsuo		✓			✓	✓	
	Keiko Erikawa	✓				✓		✓
	Kenneth A. Siegel		✓		✓			✓
	David Chao	✓				✓		✓
Audit & Supervisory Board member	Maurice Atsushi Toyama		✓	✓				
	Yuji Nakata		✓		✓			
	Soichiro Uno		✓		✓			
	Keiichi Otsuka		✓	✓				

Table 1: Skill Matrix of each director at SBG



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