I assumed the post of Chairman of the Board in June this year. Using my seven years of experience as Representative Director, Vice Chairman, I will work to reinforce governance as Chairman—a role which no longer has the power of a Representative Director to enable us to clearly separate business execution from governance.

Right now, Sojitz is at the stage where we are taking on new challenges aimed at sustained growth and actively working to expand our businesses. We see these changing times as an opportunity for growth, and in order to steadily expand, it is crucial that we have a system in which fast management decisions can be made while simultaneously identifying and addressing mid- to long-term risks. Under such a system, we strike a balance between business execution and oversight.

In recognition of this need, the company established the Internal Audit Committee under the Board of Directors last year, to lead the Internal Audit Department. This organizational structure ensures that Internal Audit Department can voice opinions in a manner that is independent from business execution. As the Chairman of the Internal Audit Committee, my duties go beyond evaluating audit results. If there are findings that a certain business must address, instead of providing instruction only to the specific organization in question, I issue instructions to all organizations as necessary, to prevent any reoccurrences of the issue. I also make a point of visiting our overseas affiliates, operating companies, and other Group companies to educate staff. Incidentally, based on my experiences in the course of many years as a public relations officer at a financial institution, I focus on ensuring that I myself am attuned to changes in the values of society in order to prevent the organization’s internal ethics from going against social conventions. Additionally, when I visit Group companies, I make an effort to meet employees face-to-face so I can check their morale. These are just some of the ways we are continuing to strengthen our supervisory functions, including those for overseas Group companies.

We will also continue to strengthen the functions of the Board Meeting Operation Office established in April 2019 as part of our continued efforts to increase the productivity and transparency of the Board of Directors. The Board Meeting Operation Office discusses matters with our outside directors before Board of Directors meetings, and we are working on ways to provide our outside directors with more specific information through greater opportunities to observe company functions, in addition to these discussions. In this way, we hope to encourage our outside directors to actively contribute opinions at the Board of Directors meetings.

To strengthen governance, we need every single employee that carries out our various policies to have high morale. I believe my mission is to get all employees to fully understand that strengthening governance to gain disciplined, highly-transparent organizational management and a refreshing human resources policy is the cornerstone to achieving the “two types of value” that Sojitz strives to realize. To make that possible, I will do my best to leverage my years of experience and tackle this new challenge.

What role should outside directors fulfill right now to increase corporate value?

We asked two outside directors for their views.
Increasing the effectiveness of the Board of Directors

Yamazaki: It’s been four years since Japan’s corporate governance code was enacted. These days, it is not enough to simply meet the formal requirements for governance. We are in an age where outside directors in particular are evaluated on their effectiveness in increasing corporate value; in other words, how they monitor and provide management oversight on behalf of shareholder interests. Ms. Naito and Mr. Otsuka, you were both appointed as outside directors last year. Looking back over the past year, what are your impressions of Sojitz’s governance?

Naito: The first thing I noticed is that many people at Sojitz recognize the importance of governance. The Board of Directors actively discusses issues from the perspective of both profitability and risk, possibly because of the management crisis that they had to overcome in the past.

Otsuka: Yes, I agree. I was also impressed by the disciplined management of board meetings.

Yamazaki: Did you ever raise a dissenting opinion in any of the various decision-making sessions?

Naito: A general trading company does business in a wide variety of areas. Therefore, when I take part in the Board of Directors meetings, I always ask myself: “Have we overlooked anything?” I also make a point of asking questions to clarify anything that was unclear. We received explanations in advance, and these helped my understanding. Fortunately, I never saw any major problems with the decisions being made.

Otsuka: Audit & Supervisory Board members at Sojitz have a very firm grasp of their role. They are aware of what new directors like us do not know, and they explain circumstances to us in advance. So as far as internal controls go, I think this is an excellent organization.

Yamazaki: It is extremely important for outside directors to receive sufficient information about the company. When and how does this take place specifically?

Naito: Sojitz has an Internal Audit Committee that operates independently from the organizations in charge of business execution. This committee reports its activities to us at the Board of Directors’ meetings, where we then have the opportunity to share our opinions. We are also encouraged to observe councils that specialize in different issues such as the Finance & Investment Deliberation Council and the Sustainability Committee.

Otsuka: Although I could understand the business of a general trading company on a conceptual level given my manufacturing background, in practical terms, I did not know the process of who made decisions or how they were made at a general trading company. It is therefore extremely helpful for me to be informed of the actual situation on the ground when deliberating issues at committee meetings.

Naito: I’ve been in many situations where deliberations continued without the problem at hand being resolved, or where the issues had to be sent back to the proposing department.

Otsuka: The briefings before the Board of Directors meetings are very helpful. Since we understand the background of the issues, we are able to take part actively in meetings instead of listening passively.

Yamazaki: I believe that these measures put in place to increase the effectiveness of the Board of Directors should be applauded.

Visiting business sites to detect potential issues

Yamazaki: On the other hand, do you have any concerns in fulfilling your duties, or are there any issues you feel could be improved upon?

Otsuka: Sojitz has full-time Audit & Supervisory Board members who visit sites in Japan and abroad, but I think it would be helpful if outside directors had more opportunities to visit business sites as well. A lot of informal conversation takes place at business sites. Even a casual conversation can reveal things about the workplace's level of motivation or tension, and I think we could use that information when making management decisions.

Naito: Yes, I agree. I’m especially interested in learning how women’s performance is contributing to growth.

Yamazaki: Sojitz is making great strides with diversity management, so if we can take part in the daily communication between employees, including conversations with women and foreign workers, we might be able to catch a glimpse of the potential of future business or possible conflicts. Furthermore, any opinions from outside directors that are based on actual observations help shareholders and investors to learn more about employee motivation, the actual state of
Evaluating the new executive remuneration system

Yamazaki: What do you think of the new executive officer remuneration system that was introduced this year? Remuneration is a big governance issue for Japanese companies, not just Sojitz, and there a lot of questions about whether remuneration should be determined by set rules without the consensus of executives, and whether it will be a suitable incentive to improve financial results.

Naito: We did create the remuneration system with certain rules in mind. Since FY2018 was the first fiscal year after the system was introduced, we focused mainly on ensuring that it was running as planned. However, since we received a number of questions and opinions, such as “How are contributions to sustainability evaluated?”, we are already working together with the Secretariat to discuss ways to improve the system.

Otsuka: We want to take the initiative to change anything that needs to be changed. But since we need to work in tandem with management policies, any major changes will most likely happen in the course of the next medium-term management plan. Moreover, performance-based remuneration affects not only executive officers, but must also be balanced against the Group’s global remuneration structure and its human resources system, so we need to move cautiously in such matters.

Yamazaki: I hope you will be able to adopt the necessary changes to improve effectiveness even further.

Striking a balance between risks and growth opportunities in decision-making

Yamazaki: Lastly, I would like to ask you about Sojitz’s policies going forward. Sojitz has made a series of moves aimed at sustainable growth, such as investing ¥315.0 billion over 3 years under the previous medium-term management plan. Shareholders and investors are very interested in learning how outside directors will participate in such growth strategies.

Otsuka: There is a trend towards hands-on management in the manufacturing industry, so I hope to use my management experience in quality control and other scenarios to contribute as much as possible. Additionally, there are businesses from which we will not see return within the next few years. I will try to determine whether these are businesses that are properly monitored and run with a responsible management structure despite being businesses that carry risk. Furthermore, as the head of the Nomination Committee, I hope to work with the committee members to think about our vision for the Board of Directors and give them encouraging advice.

Naito: I want to support the company in realizing its “two types of value” while focusing on both the opportunities and risks that accompany its growth strategy, taking a broad look at both laws and “soft laws”—that is, international standards and generally accepted ideas such as the SDGs—and helping the company remain what regular members of the international community would consider a healthy company. Furthermore, since decisions will differ depending on whether we are taking a short, medium, or long-term perspective, I want the company to make well-balanced decisions without focusing solely on immediate profits and make irresponsible choices and delegate responsibility to others down the line.

Yamazaki: When we think about the society of the future and supply chains, it is extremely difficult to conclude what kind of governance a general trading company will need to both take risks in a wide range of business areas and search for growth opportunities. Despite this, it is clear that Sojitz is putting measures in place to create the kind of culture and structure that allows outside directors, as a third-party, to share their opinions. In a time when people want to know more about how companies are strengthening governance and whether those efforts are effective, I look forward to your future involvement as outside directors who are aware of these issues.