Message from the Chairman of the Board of Directors

What does it mean to have a Corporate Governance Code?

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What does the Code mean to publicly traded firms?

The Corporate Governance Code was imposed from last year, making this year the dawn of a new era for corporate governance in Japan. Publicly traded firms fund their business with money supplied by their shareholders, which imposes a responsibility on such firms to update these shareholders with details about the actual condition of the company. Such information that needs be presented is not limited to financial status, but also includes future aspects pertaining to the company and the roadmap it has laid out in pursuit of growth. Company shareholders face losses on their investment should the stock price of the company fall off due to its inability to grow or create new value. Conversely, if the company does grow, its shareholders benefit from higher stock prices. Accordingly, if shareholders cannot get accurate information about a company in which they invest, they will not be able to make a rational judgment on whether to buy additional stock or to sell off that company's shares. Japanese companies are widely considered to provide their shareholders with insufficient information. This failure to present accurate information to shareholders, who invest their precious funds, has led to a sense of concern that these companies' management processes lack transparency, and by extension, that important issues are not being thoroughly discussed. The Corporate Governance Code affords not only an opportunity that enables shareholders to voice their opinions to company management based on accurate information but also a unique opportunity for companies to incorporate input from shareholders to ensure management transparency to bring about excellent results. The feature of this code is that it only advocates certain principles, allowing companies flexibility in how they implement the details. Whether a company only meets these principles at a superficial level or thoroughly embraces them in pursuit of improved corporate value is up to each company. Accordingly, what is really expected by the code is to encourage companies to build a system that attains their mission of successive growth and enhanced corporate value while giving them the flexibility to design the system at their discretion.

How will EBARA evolve under the Corporate Governance Code?

EBARA has been around for over a century, and the very fact of its long survival is evidence that society keeps recognizing its value. However, as EBARA has developed its business in a relatively closed market, it is distinct that its ability to adapt to swift societal changes is diminished. We were truly taught how constrained our window into society was following a series of unpleasant events that happened in quick succession around the time of the year 2000. While implementing preventive steps against recurrence of such events, we realized that it would be impossible to achieve both continued growth in business and to fulfill our social responsibilities unless we kept open minds towards society as a whole to properly understand how trends were unfolding. It was around this time that we began to carefully consider about the ideal form of corporate governance in EBARA. We pursued a style of governance that enabled swift and rational decisions to be made concerning how efficiently our business will develop with our windows wide open to society. We have fully recognized that the Board of Directors, as an organization rather than a particular individual, such as the president of the company, must exercise strong leadership for sound corporate governance. Placing the Board of Directors to function at a higher level can mitigate the risk of poor decisions based on personal interests. Realizing that corporate governance begins with the discussions at the Board of Directors' meetings, we decided to bring in two independent outside directors in 2007 with a view to adding a new element of objectivity to these discussions. The number of such outside directors increased thereafter, leading to free and unbiased discussions, and preventing decisions from being overly influenced by the individual interests of directors responsible for business operations. Meanwhile, a common concern arose among the members of the Board of Directors. This was about whether a "Company with Board of Company Auditors" system, which entails the directors responsible for business operations making important management decisions, ran contrary to enabling the Board of Directors to fulfill its primary objective of overseeing business operations. After discussing this matter, a consensus was reached that the management oversight function of the Board of Directors would be more effective by establishing committees that are independent of business operations. This decision led to the creation of the Nominating Committee, which has the authority to nominate directors (and consequently choose the president), and the Compensation Committee, which was granted authority to determine the compensation of directors and officers.

While Japan's Corporate Governance Code requires that audits are conducted independently of the business operations, it only goes so far as to encourage the establishment of nominating and compensation committees as an option. However, the "Company with Three Committees" system—one of the systems under the Companies Act of Japan—requires that companies establish not only an audit committee, but also nominating and compensation committees. In conjunction with the application of the Corporate Governance Code, we chose to adopt the "Company with Three Committees" system from among the three systems set forth under the Companies Act (the choices being: Company with Board of Company Auditors, Company with Audit and Supervisory Committees, and Company with Three Committees) as this system defines legal requirements for the responsibilities and roles of the nominating and compensation committees. In this manner, we used the application of the Corporate Governance Code as an opportunity to adopt a system that moved us closer to our ideal model for corporate governance.

Ideal Model of Corporate Governance and Progress at EBARA

While we have adopted the "Company with Three Committees" system for the organizational structure of the company, the effectiveness of this system had yet to be verified. It was for this reason that we evaluated the effectiveness of the Board of Directors over the period from March to May 2016. With third-party assistance, the Board of Directors conducted a benchmark analysis. This analysis compared our governance structure against the principles described in Japan's Corporate Governance Code as well as overseas equivalents (those of the United States, the United Kingdom, and OECD) to see to what extent we met these requirements. This study also included comparisons of our approach to those of companies which are recognized as advanced cases in terms of governance structure, both in Japan and overseas, to assess how our approach differed. Through this benchmark analysis, it was found that our corporate governance system not only satisfies all the requirements of the Japanese standards, but also met or exceeded the present state of leading domestic companies in terms of governance. In addition to the benchmark analysis, we prepared extensive questionnaires to be filled out by each director covering a wide range of topics, including validity of function, capability and the right and wrong about formations of the Board of Directors, as well as the support systems for Outside Directors, and executed questionnaire result analysis. According to such analysis the way of steering the Board of Directors received high praise from all directors, and the consensus was that open, active, and broad-ranging discussions were being conducted during the meetings. However, it was also suggested that more time needs to be set aside to discuss medium-to-long-term management issues.

Based on the results of these evaluations, it was determined that the existing structure of the Company's Board of Directors is sufficient to function effectively.

The system we aim to establish has the Board of Directors as an organization exercising leadership in corporate governance, regardless of switches in members. There are still some areas that require improvement and we shall continue to make such evaluations in an objective manner so that we may steadily move closer to our ideal model.

Corporate governance system is an indispensable prerequisite to ensure steady corporate growth. As we now have an effective system in place, the next step is to demonstrate an excellent outcome to validate the path we have chosen.