

Special Discussion between Three Committee Chairpersons

In aiming for excellence in its corporate governance, Daiwa Securities Group has thus far been progressive in its approach. Going forward, in societies where globalization is making further progress and uncertainties are growing, we will continue to maintain an ideal form of governance. On this occasion, we asked three outside directors of Daiwa Securities Group, Tadashi Onodera, Keiichi Tadaki and Hirotaka Takeuchi—who chair the nominating, audit and compensation committees, respectively—to exchange their opinions.



Keiichi Tadaki
Outside Director
Chairman of Audit Committee

Tadashi Onodera
Outside Director
Chairman of Nominating
Committee

Hirotaka Takeuchi
Outside Director
Chairman of
Compensation Committee

From Their Respective Experiences, What They Expect from Top Management

Tadaki: In a society of advances in digitization, one of the biggest risks a company can face is reputational risk. An exceedingly horrific aspect of reputation risk is that when the damage is severe it can cause the backbone of a company to break. This is totally different to the level of damage in terms of economic value.

When it comes to doubts being cast about a core business or its merchandise, the foundations of that company will be shaken, regardless of its previous achievements. Even in the case of Daiwa Securities Group Inc., in the unlikely event of a situation such as unfairly harming customer interests and from which an employee or the Company are said to have profited, it is not difficult to imagine that the Company would likely be dealt a devastating blow. And it is very difficult to completely prevent risks of this kind.

The governance of a company is very important, as is the auditing of a company, but, essentially, I think that to what extent employees feel fulfilled at that company and how proud they feel of that company, that kind of thing represents the last bastion. So, as the last line of defense, I think that it is important to foster the loyalty employees feel toward their company.

If by any chance risk arises, how quickly top management obtains information and is able to accurately recognize risk, has a very significant impact. Depending on what attitude top management adopts, cases can be divided into those in which the reputational risk becomes extremely large and those that can be brought comparatively under control. In addition to how quickly top management obtains accurate

information, it is crucial that they never make a mistake in responding to that information. As you would expect, it is said that consistently responding with a customer-oriented stance to the very end is thought to be the decisive factor in reputational risk countermeasures.

Onodera: I assumed office as the president about six months after the merger of KDDI and was appointed to consolidate dozens of companies. What you expect from top management depends on the situation of the company at that time, on its stage of development. Daiwa Securities Group is currently in a situation where it is having to promote new things amid a changing business environment. In this case, there are different forms of risk than those taken in traditional businesses for a long time. I think that how to understand that risk and how to take risks will probably become the form required of top management from now on.

Since the election of the CEO is a matter to be resolved by the Board of Directors, how the Nominating Committee should be involved cannot be easily explained. In the case of Daiwa Securities Group Inc., we see the candidates reviewed by the Nominating Committee when they first become a

member of the Board or a senior managing director. It is a characteristic of Japanese companies, but in cases where the president is chosen from within the company, I think it only natural for importance to be attached to the opinions of the outgoing president and the chairperson, who know the most about the inner workings of a company. The role of the Nominating Committee is to propose and undertake firm reviews of the processes and conditions for selection. The practice of inviting presidents from outside the company has not spread to Japanese companies, including the Company. In that sense, to me, rather than nominating, the role of the Nominating Committee is more one of clarifying the selection process.

I also think that the method for selecting the president is completely different to the situation at that time, but seeing that there is the Nominating Committee, we must show all our stakeholders under what terms and for what reasons such a Board member is being selected and ensure transparency. It is important for the members of the Nominating Committee to engage in discussions drawing on their various experiences. If the Nominating Committee ends up heading in one direction, that may become a source of mistakes.

Keiichi Tadaki
Chairman of Audit Committee



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Relationships with Stakeholders

Takeuchi: Taking as examples other companies with which I was involved, there are companies that are introducing training sessions in groups of dozens of people for conducting thorough discussions in English, including in their interactions with strategic partners and the managers of overseas branches, to foster the globalization of companies and global competitiveness. The training sessions are conducted on an equal basis to create partners in the space of several weeks. There have also been cases in which long-standing Japanese enterprises that have acquired major overseas companies have introduced programs to once again instill the founding spirit and encourage employee interaction in English. It was impressive that the president declared “I am the boss” to employees of the acquired company in English. In these examples, with regard to the problems besetting the companies, they were able to enter into real if fresh discussions with each other in English. I think that opportunities of this kind will be of particular importance in cases where globalization has progressed.

Daiwa Securities Group has introduced deployments to Stanford University and Harvard University programs and offers opportunities to improve by learning with world leaders in various industries. Looking further ahead, it might be good to bring together the employees from home and abroad who will be responsible for the future of the Group and conduct training sessions to facilitate serious discussions. In June 2018, we held our Executive Management Committee meeting in Silicon Valley and visited Google and Facebook. I think that it would be good to have a program that would enable us, when presented with such a precious opportunity, to go there not merely as visitors but with the intention of holding our own.



Tadashi Onodera
Chairman of Nominating
Committee

By having the Group actively disseminate Japanese corporate governance, overseas countries will be able to benefit from a greater understanding of Japanese companies.

Takeuchi: I feel that the concept known as stakeholders should be perceived more widely. In the United States important stakeholders are shareholders, and the somewhat broader importance in Japan encompasses employees and customers, but I think that the most important stakeholder is “the future.” For that very reason I feel that it is what is known as the corporate vision, considered from a social viewpoint—“what kind of future we are going to create” rather than “what kind of company we will become”—that will be the key. The reason corporate activities are different is that the visions the companies have in mind are different. In my personal opinion, Japanese companies should not perceive corporate governance so narrowly, nor just imitate foreign companies. Steps should be taken to incorporate the good points of Japanese corporate culture a little more, while also taking the future into consideration.

Onodera: I totally agree with you. While Japanese merchants have maintained the wonderful concept known as *sanboyoshi*—meaning good

business and of benefit to three parties: society as well as the buyer and seller—since the Edo period, it is said that Japanese companies came late to the concepts of corporate governance and stakeholders because the words did not include shareholders. In my opinion, I think there were many Japanese corporations in the past that neglected their shareholders. As a securities company, Daiwa Securities Group should, in a forward-thinking manner, reward shareholders and, at the same time, I think that the Group must also make efforts to have other companies understand.

Also, I think that it is good for corporate governance to have something of a Japanese form. The form governance takes is different to that in Europe and the United States and even in other countries overseas. By having the Group actively disseminate Japanese corporate governance, overseas countries will be able to benefit from a greater understanding of Japanese companies. As a result, I think that this will be effective for the Group’s business.

Ideal Corporate Governance

Tadaki: From FY2017, Daiwa Securities introduced a major shift to a bottom-up sales structure. Sales representatives to branch managers and head office officials decided to try and follow this bottom-up sales structure, although it has not been easy to change the way things were done in the past.

The word governance carries the nuance of top-down dominance, but now, even with regard to governance, it is the bottom-up channel, conveying the actual customer situation from the sales representative with plans drawn up by head office, that is important to realize the highest quality to which Daiwa Securities Group aspires.

If the purpose of securities companies were immediate profit, it would be better to target only wealthy people. However, while the working class of Japan accumulates assets so that it can live with peace of mind throughout its entire 100-year lifespan, it is very important to recognize its significance as a social entity that securities companies help in that regard. It is important for governance that the entire company shares such values and collaborates, and it is also a key point in the aforementioned issue of reputational risk.

Takeuchi: It is said that the Tata Group, based in India, used as its reference for governance a long-established Japanese company. The Tata Group translated *Shin Nippon Eitaigura* (New Japan's Eternal Storehouse), and the important governance factors found were the "family precepts" to which old Japanese companies had adhered for generations.

This is a completely different idea from the West. There are statistics that show that 40% of companies that have survived for more than 300 years are Japanese, and I think that this surely represents sustainability in the true sense of the word. There is much more for us to learn about governance from those Japanese companies.

Tadaki: I think that Daiwa Securities Group has built a governance structure that is sensitive to global standards. Ahead of other Japanese companies, we appointed outside corporate auditors, invited advisory committee members from outside the company, and adopted the committee system. We were the first domestic listed company to adopt the holding company structure. Even if the number of outside directors is six of 14 people, so long as the chairpersons of the three committees are all outside directors and the majority of all the committees are outside directors, this will help incorporate an awareness of global standards.

Onodera: Just as you pointed out, among Japanese companies Daiwa Securities Group has implemented progressive initiatives with regard to governance. Moreover, I think that judgments based only on the formality of overseas standards are too prevalent and regard it as positive that governance can take various forms. In each, I think that emphasis should be placed on each company giving consideration to what is the best system for one's own company and on how to execute that form.



Hirotaka Takeuchi
Chairman of Compensation
Committee

I think Japanese companies should not perceive corporate governance so narrowly, nor just imitate foreign companies. The good points of Japanese corporate culture should be incorporated a little more, and I hope that the future will also be taken into consideration.