

[Waseda-RIETI Symposium

Corporate Control and ESG under “New Capitalism” - Next phase of corporate governance reforms

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and RIETI
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Historical Trend

□ From 19th Century to 1989

- Socialism (Planned Economy) vs. Capitalism (Market Economy)

□ 1990s : Competing models of Capitalism/Variety of capitalism

- Anglo-Saxon vs Continental Europe/ Japanese type of capitalism
- Liberal vs Coordinated market economy

□ Turn of the century: Expanding world trade, Financial globalization, IT-Revolution

- ✓ The revival of the US economy
- ✓ Banking crisis, and non-performing loan problems
- ✓ Mal-function of traditional Japanese type system

Historical Trend

□ The 2000s: Converge on the US model:

⇒ The world-wide diffusion of CG code, the increasing share of foreign investors.

□ Global Financial Crisis in 2008 :

- ✓ Skepticism on the US model, or shareholder supremacy model
- ✓ Too strong governance resulted in environmental issues, social exclusion and income inequality
- ✓ Larry Fink (BlackRock) / BRT 2019 Aug) :
- ✓ Reconsider the purpose of firms or Freedman Doctrine

□ Covid-19 :

- ✓ Solving social and environmental issues,
- ✓ ESG/impact investment

Japan: One lap behind

Abe-Cabinet: Corporate governance reforms as a growth strategy

<Vision >

- Low level of ROE, and conservative corporate behaviors
- By Strengthening the shareholder influence →to change corporate behaviors toward risk taking.

<Policies >

- JPX400 (new Index considering on governance factors)
- GPIF -- Asset reallocation / active engagement to AM firms to which they delegated to. Stewardship code 2014:
- Corporate Governance Code in 2015、

“New Capitalism” and Dual Tasks

Result of Abenomics

- ✓ Increasing dividend and stock repurchase
- ✓ No evidence that investment, R&D and corporate were encouraged
- **COVID19** : ESG boom, Coborn neutral, redefine the corporate purpose



Kishida Cabinet “ New Capitalism”

- ❑ Emphasize stakeholder model again.
- ❑ Distribution and Growth / Responsible capitalism



Dual (layering) tasks :

- 1) On the halfway of former task : narrow sense of governance reform
- 2) **Considering on social sustainability’s issues.**

Considering on relevant ownership structure under “ the new capitalism”

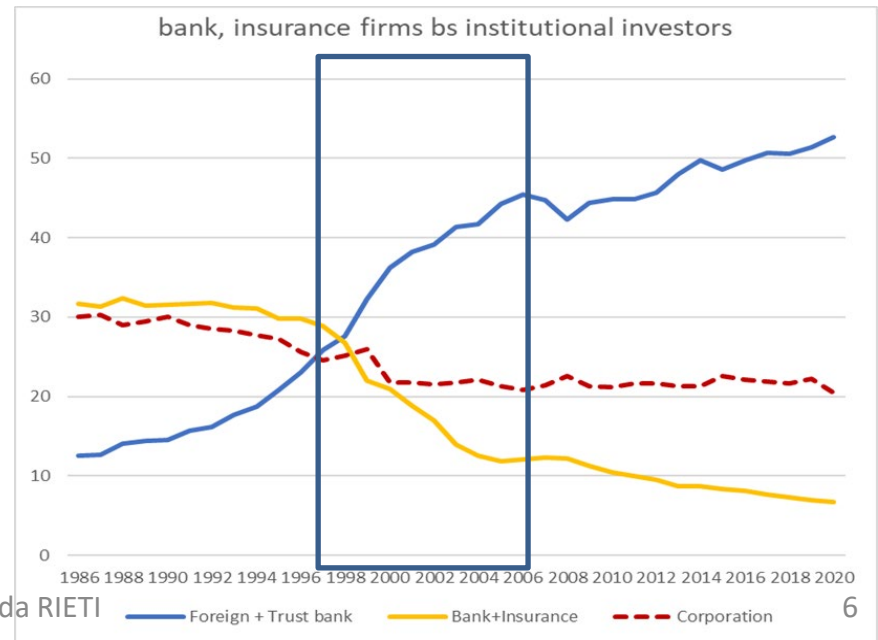
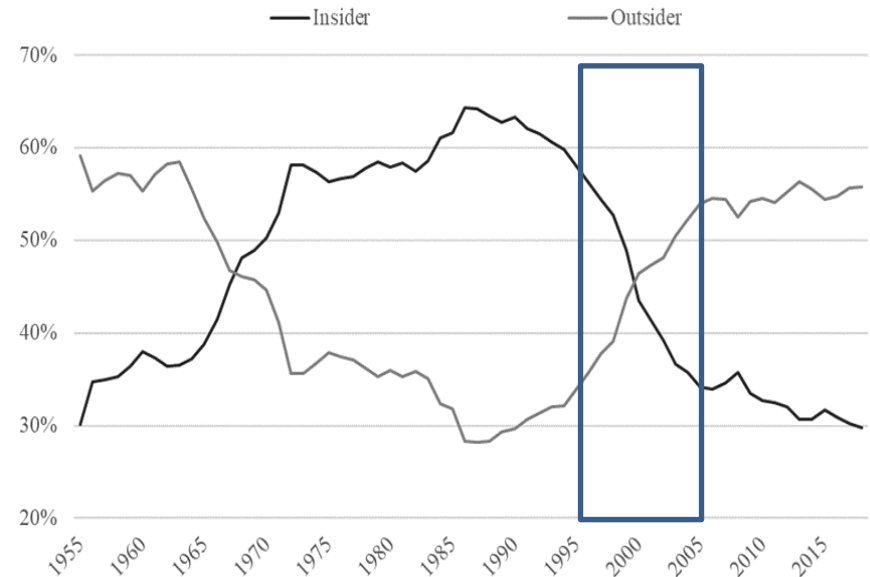
- ❑ The combination of 1) shareholder who seek the financial return with portfolio investment and 2) shareholder who commit to the long-term management of firm (Mayer 2018)

- ❑ Encouraging Profitable management
 - Outside investors (=active funds, activist hedge funds)

- ❑ Supporting to solve the global and social issues
 - inside owners (entrepreneur family, employee)
 - Corporate shareholding -- block shareholding
 - Passive Index funds、insurance firms, impact funds

Long-term Trend of Ownership (TSE 1st sec.)

- Drastic change in the turn of the century, deviating from insider dominated structure
- Relative stable in insider and outsider after 2006
- However, within insider and outsiders, there are **significant changes**.



Increasing areas of Foreign Active Funds

- Foreign Active funds : from large caps to small and medium caps
- Active funds engaged in their management with friendly ways

percentile	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	12-17	12-19	10-19
第 1 分位	3.3	3.5	3.9	4.5	5.4	5.0	4.9	6.0	5.6	5.7	2.1	1.8	2.4
第 2 分位	7.5	7.2	7.9	9.3	9.3	10.7	10.5	10.9	10.5	9.2	3.0	1.2	1.7
第 3 分位	11.8	12.5	12.3	13.7	16.1	15.8	16.2	16.0	14.9	15.4	3.7	3.1	3.6
第 4 分位	16.7	16.7	17.6	19.9	20.3	20.3	20.3	21.4	19.9	19.0	3.7	1.3	2.3
第 5 分位	25.7	24.9	26.7	29.4	30.3	29.4	29.4	29.2	27.9	27.6	2.5	0.8	1.9
Total	12.5	12.5	13.2	14.9	15.8	15.8	15.9	16.4	15.6	15.3	3.3	2.1	2.8

smallest

largest

Diversification of Activist Hedge funds

□ Diversification of activist :

- from confrontational type (in the 2000s) to more friendly or quiet type (engagement funds and focus funds)

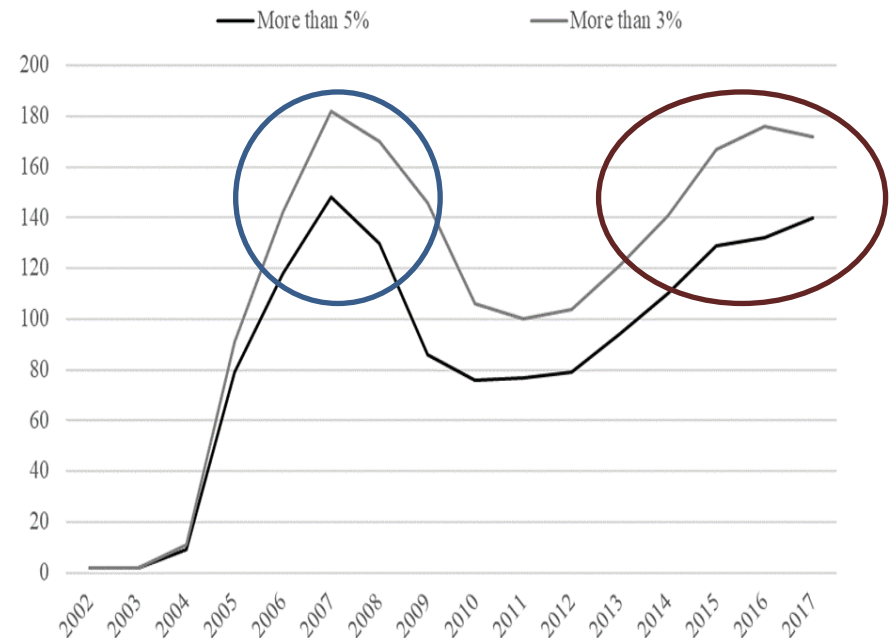
□ From small to large caps

Ex. Third point to **Sony Corp.**

Elliott to **Toshiba**

□ Potential collaboration between traditional investors and activist funds

No of activist with block holding
Two peaks:



Dissolving cross-shareholding/ keeping intercorporate shareholding

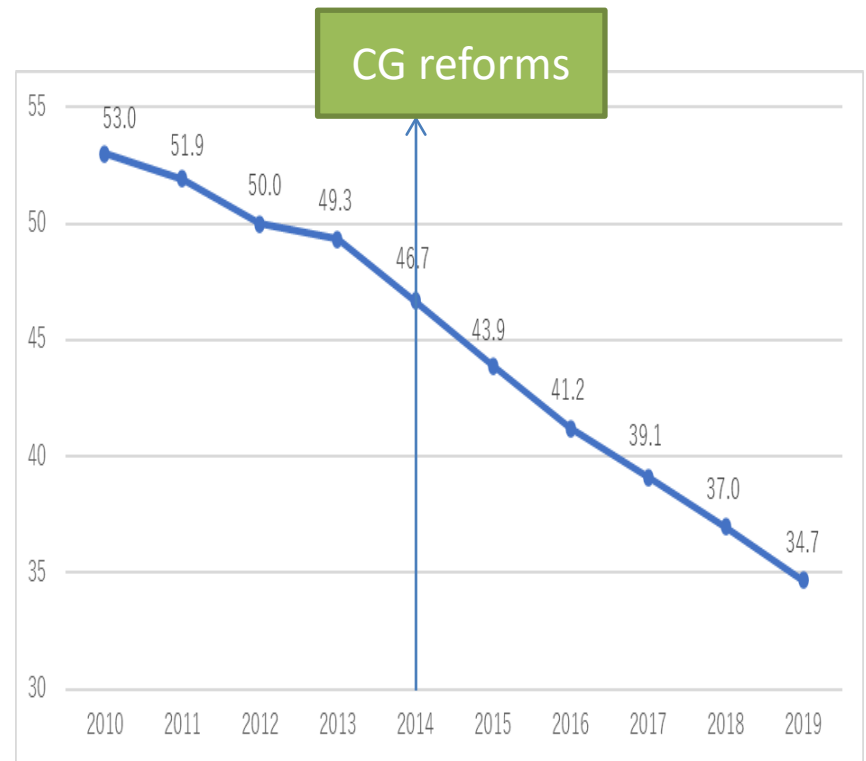
□ Corporate Governance Code

- Disclosure requirement
 - Board should confirm the reasons for relational holdings.
- cross shareholding was gradually dissolved.

□ Intercorporate shareholding was kept or rather increased

- ✓ selling small shareholding
- ✓ selling stock with high volatility
- ✓ keeping stocks of a firm with blockholding

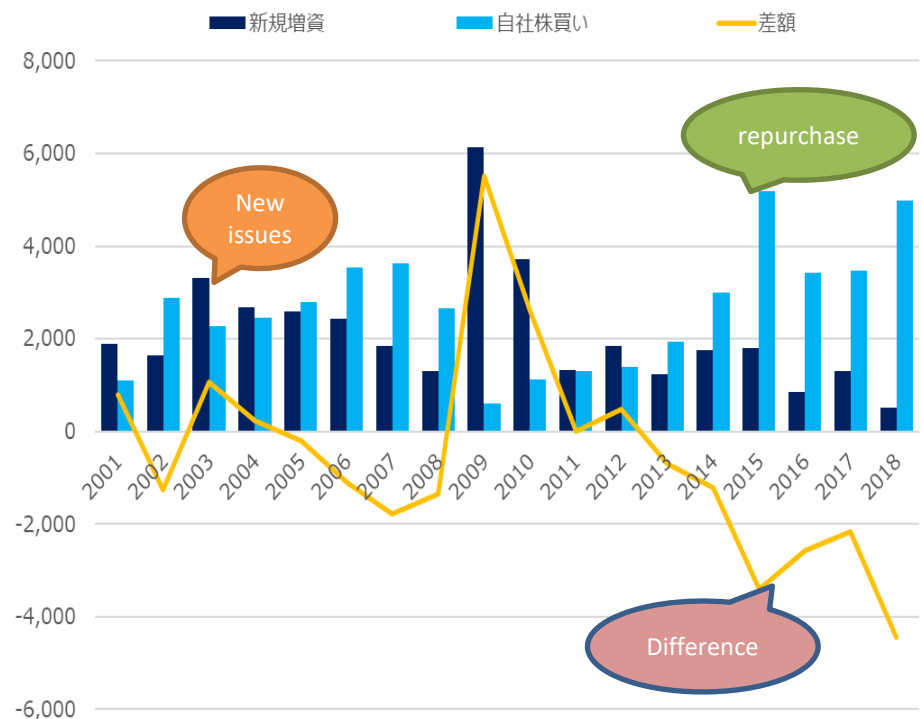
No of brands that a firm held on average



Managing the Ownership by Managers: Stock repurchase

- ❑ Deregulation of Stock repurchase in 2001
- ❑ Market is not the place for raising capital.
- ❑ two methods
 - Open market transaction)
 - from institutional investors
 - TOSTNeTs
 - from insiders (banks, family, parent firms)
- ❑ **Keeping insider ownership**

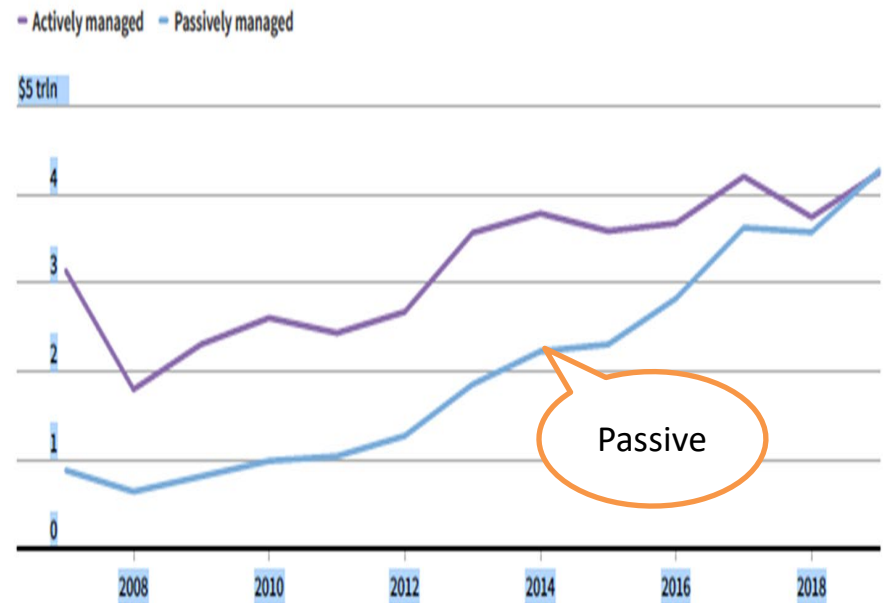
- Stock repurchase and public issues



Shift from active funds to index funds

- Global shift from active fund to passive
 - ✓ *In the US, passive funds is equivalent In the US*
- In Japan, the share of active funds of domestic institutional investors in market cap **decreased 10% in 2012 to 6% in 2019.**
 - ✓ *ETF purchasing by BoJ and GPIF*

Rise of Passive funds of US



Morningstar | Note data is through Aug. 31
Feilding Cage | REUTERS GRAPHICS

Mayer, 'Institutional investors,
presentation at RIETI, 2021

Three presentations

Julian Franks (LBS): Stock repurchase and market response

- Dissolving cross-shareholding ⇒ increasing share held by outsider ⇒ managing ownership by the management.
- Interestingly, private placement through the treasury stock responded positively.

Suzuki (Waseda): shareholder activism: quiet vs public activism

- Overview of activism in Japan
- The role of activism in Japan

Marco Becht (ULB): Loyalty Shares with Tenure Voting

- Current status of control enhancing mechanism in EU
- Possible cost of responsible behavior, or trade off between responsible capitalism and financial performance