

DISCUSSION WITH INDEPENDENT DIRECTORS

Role of Corporate Governance in Accelerating Transformation to a DX Company



Atsushi Abe

Managing Partner,
Senior Advisor
Sangyo Sosei Advisory Inc.

Scott Callon

Chief Executive Officer
Ichigo Asset Management, Ltd.

At the Annual Shareholders' Meeting held on June 22, 2020, the Board of Directors, which included a new independent director, was approved. Immediately following the meeting, Atsushi Abe, Chairman of the Board of Directors, and Scott Callon, the new director, sat down to exchange views on the recent changes in Fujitsu's governance system and progress with its transformation to a DX company.

Abe: At the Annual Shareholders' Meeting that just concluded, all of the members of the new Board were approved. Now we must pull together to promote Fujitsu's transformation.

Callon: As an investor, I have always respected Fujitsu as an excellent company. Having built a relationship of trust with you over a number of discussions, I am very happy to be able to participate directly as an independent director. I am committed to the transformation of Fujitsu.

Abe: When your name came up as a candidate for independent director, I spoke about the proposal with other independent directors, corporate executive officers, external experts, and some shareholders. Knowing that you are the CEO of Ichigo Asset Management, an institutional investor and one of Fujitsu's major shareholders, about 80% of the people agreed with the proposal, saying "yes, definitely." The remaining 20% pointed out issues such as potential conflicts of interest and the unintended message that sales of Fujitsu shares would give if Ichigo decided to sell. After considering those concerns, we concluded that the benefits of having you speak on behalf of the capital markets in the Board carried the greater weight.

Callon: All information I come into contact with in Fujitsu Board meetings is strictly firewalled. Ichigo believes Fujitsu is a strong company and a good company. Because we are investing for long-term value creation, we have no intention of selling in the near term.

—As an investor, in what sense do you regard Fujitsu as “strong and good”?

Callon: Above all, Fujitsu's clear stance of contributing to society and the world through its technology. I have long argued that Japan is an ESG powerhouse. Within Japan, Fujitsu is deeply committed—and that goes from employees on the ground to the CEO—to serving the less fortunate and creating social value. Governance is also robust, as you can see from Fujitsu considering a shareholder like me as a candidate for independent director. As far as I know, no large Japanese listed company has ever before appointed an institutional investor as an independent director. Fujitsu is on par with leading companies in Europe and the United States in strengthening its governance system on its own initiative with the mission of supporting the world through its services.

Abe: Fujitsu has been making sustained efforts to strengthen governance. In addition to having a Board of Directors with a majority of non-executive officers, Fujitsu brought in independent directors who have a diverse range of backgrounds and strong personal views, rather than having “celebrity CEO” directors. After I became a director in 2015, we established the Independent Directors & Auditors Council to create a mechanism to support their substantive oversight of and advice to Fujitsu. Since 2019, I myself have chaired the Board of Directors. I think 2020 is even more epoch-making. In addition to the Board becoming a majority of independent directors, Scott joined us. That gives the Board of Directors direct access to the perspectives of shareholders and investors and the capital markets.

Callon: Governance both unlocks corporate value and ensures the discipline required of public companies. I have high expectations that Fujitsu will succeed in its business transformation, thereby realizing its 5 to 10-year goals and driving sustainable growth. In doing so, Fujitsu will also deliver to the world value creation distinctive to its culture and history as a Japanese company and contribute to the diversity of global society.

—When Mr. Abe was appointed chairman of the Board of Directors in June 2019, it was the first time an independent director had been appointed to the post. What kind of changes have you seen over the year?

Abe: I think we have reached a milestone where we now have a good framework in place, revamping systems that may be customary at Japanese companies but are nonetheless peculiar from the perspective of governance principles. However, we still face issues. Recently, I conducted direct interviews with other directors to evaluate the effectiveness of the Board, including my performance as chairman. One issue that has long been identified as a problem is that it is very difficult to have deep discussions on each agenda item. Although I think we have been making improvements, this issue has not been completely resolved over the past year. Scott, you will participate in meetings from here on and will see at first hand that the Board of Directors receives many reports and has time constraints on its discussions.

Callon: To be honest, I find it troubling when an item is proposed for Board approval after the policy and content have in effect been pre-decided upon by management. I would like to be involved in discussions from an early stage and be fully convinced before agreeing to any proposal.

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Abe: A common pattern at Japanese companies so far has been for executive officers to repeatedly discuss the issues, with proposals only submitted to the Board when close to making a decision. We have been striving to make improvements over the years, aiming to make decisions based on full discussions at the Board, particularly regarding management issues of strategic importance. Based on this year's annual evaluation, we are coordinating with the Board secretariat to enable Board discussions from an even earlier stage, and we are preparing to further change the way Board meetings are managed from July. Other suggestions were to further enhance the Independent Directors & Auditors Council and for independent officers to continue to update their knowledge. That puts a heavy burden on independent directors, but I look forward to receiving your input.

—How do you evaluate progress in Fujitsu's transformation to a "DX company," a core and strategically important management issue?

Abe: As positive developments displaying the considerable speed with which we are pushing ahead with Fujitsu's transformation, I would highlight the launch of Ridgelinez in April, our investment in Palantir Technologies and the strategic alliance agreement we reached with it in June, and bringing into operation a skill-based human resources system. Senior executives are currently setting a more detailed and clearer course, including a capital allocation policy, to promote DX and determine what to focus on. On the whole, I think that we are moving in the right direction by bringing together people with diverse knowledge to provide optimal guidance for transformation.

Callon: When this gives rise to services unique to Fujitsu, services that other companies cannot provide, customers and investors will be able to see concrete results of Fujitsu's transformation.

Abe: When it comes to showing results, we realize that we don't have much time for trial and error. Behind the appointment of external talent—people who play essential roles in our transformation—lies the determination of CEO Tokita to quickly change the mindsets of people within the Company by fostering the interaction of people with diverse experience and very different views.

From the perspective of meeting the expectations of all stakeholders and contributing to resolving social issues, the reformulation of the Fujitsu Way based on our newly established Purpose will also be of great significance for our transformation. What we have to be careful of here is that the Purpose not be set on a pedestal. Rather, each one of us must give life to this Purpose and the values it embodies. Hold the Purpose close, and when in doubt, you return to it to come up with an answer. For example, if you are at a loss between whether to pursue shareholder value or the provision of social value, you should be able to come to a conclusion by going back to the Purpose.

Callon: I place first priority on creating social value. If doing so also grows shareholder value, that's great. In short, creating social value does not necessarily have to be directly linked to creating shareholder value, so I think it makes sense to consider them separately. The key issues that Fujitsu is addressing as part of being a Global Responsible Business, such as human rights, diversity and inclusion, and zero CO₂ emissions, have fundamental value in and of themselves, irrespective of shareholder value creation.



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Abe: It is an underlying premise that the two go hand in hand, but there may be complicated problems that cannot be seen in black and white terms. In such cases, though, it may make sense to return to the starting point of Purpose. And when there is a Board composed of members with diverse backgrounds that enables a multifaceted and thorough discussion, there should be no significant damage to shareholder value.

—Finally, please tell us your thoughts on the role of Fujitsu in society in the post-COVID-19 era.

Abe: Fujitsu employees have shifted to working from home to prevent infections, and it is clear that the use of digital technology can significantly change the way people work. Digital technology has been shown to be indispensable for measures against the global spread of COVID-19 and for the development of therapeutic drugs and vaccines now underway. In other words, solving social problems and Fujitsu's business are inseparable. The widely shared understanding that the collection and analysis of data are becoming increasingly important for solving social problems will surely help our transformation to a DX company.

Callon: This may be a contrarian view, but COVID-19's impact on society may not be particularly long-term if a vaccine is developed. This is clearly a tragic pandemic. However, the world rebounded surprisingly well from the once-in-a-century economic shock that was the global financial crisis. Over the long term the secular, unavoidable, structural challenges of aging and a declining birthrate may have a greater impact on Japan than this COVID-19 pandemic. Faced with such challenges, can we bring about a revolution in productivity to stimulate the economy and maintain Japan's affluence? And can Fujitsu lead the revolution as a DX company, or will it merely follow it? I think we should frame Fujitsu's future in such terms.

Abe: It is vital for the Board to hold such discussions for Fujitsu's long-term value creation. I am again acutely aware that my role as chairman of the Board of Directors is to ensure more active discussions at Board meetings, paving the way for our next action as Fujitsu.



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