



PM'S PERSPECTIVES VALUE + ALPHA GROUP

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Author: Takuya KAMIISHI
Portfolio Manager, Value + Alpha

Shionogi's 'Four Stakeholders Management'

We are approaching the end of the Heisei era. At the beginning of the Heisei era, Japanese-style management was highly regarded. Everyone studied how **Toyota Motor** managed the company and terms such as "lean manufacturing" spread all over the world. However, after this fever fizzled out, no management methods originating in Japan have gathered widespread attention, although new business models were developed by unique entrepreneurs. I have an impression that Japanese companies were enthusiastically importing overseas management practices rather than exporting theirs. And now they need new operating models with their operating models such as **IBM** and **GE** stuck in a slump for the last few years. What kind of management should Japanese companies aim for in the next era?

I believe that the "Four Stakeholders Management" concept practiced by **Shionogi's** President and CEO, Isao Teshirogi, represents one possible direction for Japanese companies in the future. Mr Teshirogi is rated as one of the top executives in the stock market, but we cannot find any books related to him or his company with his management methods unknown to the wider world. So I want to give you a brief picture of his management approach below.

When asked who owns companies, Mr Teshirogi answered that companies are sustained by four stakeholders; namely investors, customers, societies and employees, adding that companies would break down when the balance among these four is disrupted. Therefore, he thinks it important for executives to check the balance among the four groups at crucial moments, while responding to the changes of each stakeholder.

How a balance among four stakeholders is disrupted, causing possible company break down.

Stakeholders	Scenario
Shareholders	Executives continue reckless behaviors and keep wasting management resources.
Customers	Revenues decline, and the company loses its meaning of existence.
Society	Businesses become unsustainable, and brands lose credibility
Employees	The company cannot find a sufficient number or quality of workers.

Source: DSBI (Tokyo); please note the above table is not a quoted by Shionogi but the author's interpretation.

Shionogi manages how much time executives spend with each stakeholder in order to strike a balance among four groups. For example, the president spends at least 20-to-25% of his time with shareholders. The president tends to become an emperor with no clothes without anyone in the company to stab him in the front, so he has to secure candid criticism from someone outside the company. In addition, the general manager of the secretary office or others who work closely with him give advice (e.g. you should spend more time with the employees) to strike a balance among four groups.

Many executives talk up how well they treat employees and shareholders without any specific actions. While some are stingy on salaries and others don't attempt to meet with shareholders, Mr Teshirogi raised salaries by +2% or more for 10 consecutive years as well as willingly engaging in investor relations (more than 200 meeting a year).

For example, it was as a result of these investor relations activities that the company could introduce external directors. When he heard from a number of overseas investors in 2005 that the era of corporate governance is coming, he held a series of discussions with internal members. As a result, Shionogi adopted this new system ahead of peers in 2009.

Specific initiatives for shareholders and employees by Shionogi

Stakeholders	Specific initiatives
Shareholders	1) Ensure that the president allocates at least 20-to-25% of his time with shareholders. 2) The worse the situation is, the longer the president spends with shareholders. 3) Show KPIs for growth potential, efficiency and shareholder returns.
Employees	1) The company gives an above-average pay increase on a continuing basis as well as maintaining employment. 2) The president delivers messages to employees regularly. 3) The company sets clear goals, and explains what employees should do for them in a comprehensible manner.

Source: DSBI (Tokyo)

What I think is great about the 'Four Stakeholders Management' approach is its universality. We can hardly emulate management methods developed by high-profile corporate managers such as Masayoshi Son, the Chairman of the **SoftBank** due to their uniqueness. On the other hand, it might be easy for every company to ask itself universal business challenges such as 'who owns the company?' and 'what should we do to avoid the bankruptcy?', and strike a balance of interests among the four stakeholder groups by adjusting the amount of time spent by executives on each party. I strongly hope that the 'Four Stakeholders Management' concept will be introduced by many companies with the Japanese management style coming under the spotlight again in the following era, just like the beginning of the Heisei era when the Toyota production system created a sensation with the Japanese-style management stealing the limelight.

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Takuya KAMIISHI, CMA, Portfolio Manager, Value + Alpha Group, Equity Management Department

Mr Kamiishi joined Daiwa SB Investments in 2009 and covered US & European equities as a strategist from 2010 to 2013. He moved to Hong Kong in 2013 as an analyst for the auto & industrials sector in Asia Pacific ex-Japan equity. In 2015, he returned to Japan and covered the IT & services sector as a Japan equity analyst. In 2016, he became a portfolio manager in the Value + Alpha group.

Mr Kamiishi obtained a BA degree in Economics from Keio University (2009) in Japan.

Contact Details

Arnaud GÉRARD, CFA

Head of Business Development

& Client Relations

Phone: +44 (0) 20 7597 7035

Email: arnaud.gerard@daiwasbi.co.uk

Daiwa SB Investments (UK) Ltd.

5 King William Street

London EC4N 7DA, United Kingdom

www.daiwasbi.co.uk

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