Report on the Seminar:

Corporate Governance in Transition – India and Japan Experiences

Introduction

On 3rd October 2024, the Mizuho India Japan Study Centre (MIJSC) and the Centre for Corporate Governance & Sustainability at the Indian Institute of Management Bangalore hosted a seminar titled **"Corporate Governance in Transition: India and Japan Experiences."** The event brought together esteemed experts from academia and industry to explore the evolving corporate governance landscapes in India and Japan. The focus was on the distinct governance frameworks in both countries, shareholder activism, and regulatory reforms. Speakers discussed how these developments impact businesses, shareholders, and the broader economic environment in both regions.

The panel featured **Professor Fumiko Takeda** from Keio Business School, Japan, **Professor Padmini Srinivasan** from IIM Bangalore, and **Ms. Krupa Hegde**, Research Analyst at Stakeholders Empowerment Services (SES), who represented Mr. J.N. Gupta, SES's Founder and Managing Director. The event was moderated by **Professor Padmini Srinivasan**.

Key Discussions

1. Japanese Corporate Governance: Insights from Professor Fumiko Takeda

Professor Fumiko Takeda delivered a comprehensive analysis of Japan's corporate governance system, classified as a **Stakeholder Governance System**. She traced the evolution of this system, highlighting two key waves of shareholder activism: the first from **2000 to 2008** and the second starting in **2013**, following the approval of the **Japan Revitalization Strategy**. The introduction of the **Stewardship Code (2014)** and the **Corporate Governance Code (2015)** brought about significant reforms aimed at enhancing transparency and increasing shareholder rights.

Drawing from her extensive research on corporate governance, Professor Takeda focused on several key areas, including **large-scale shareholdings**, **shareholder proposals**, **proxy advisory firms' recommendations**, and **activist board representation**. Her findings revealed:

- **Positive market reactions** to shareholder proposals and an **increase in shareholder returns** (such as dividend payouts), though often driven by **short-termism**.
- A **decline in operating performance (ROA)** in companies after shareholder activism, indicating potential risks.
- **Positive market reactions** to the announcements of shareholder proposals, and **negative reactions** when such proposals were rejected.

- A **negative correlation** between dissenting recommendations from proxy advisory firms and the approval rates of proposals, with **institutional investors' voting behavior** aligning more closely with proxy firms than other investors.
- An improvement in **ROE** and **ROA** for target firms with **activist board representation**, indicating a positive long-term effect of such activism.

While these reforms have increased the number of firms with outside directors by 90%, Professor Takeda noted that key financial metrics, such as **Return on Equity (ROE)** and the efficient use of corporate cash, have not improved as anticipated. Additionally, challenges around **gender diversity** persist, with the ratio of female directors in Japan remaining low in 2023.

2. Indian Corporate Governance: Insights from Professor Padmini Srinivasan

Professor Padmini Srinivasan provided a deep dive into the **corporate governance landscape in India**, outlining the key stages in its development. She explained that Indian corporate governance addresses the **agency problem**—how to ensure that agents (corporate managers) act in the best interests of principals (shareholders).

The evolution of governance in India was traced through several key milestones:

- The **1956 Companies Act**, which laid the foundational legal framework.
- The **1991 Economic Reforms**, which spurred governance improvements.
- The **1998 CII Desirable Corporate Governance Code**, which introduced voluntary governance standards.
- The **Companies Act of 2013**, which brought significant advancements in governance practices, especially in terms of **shareholder rights** and **board structures**.

Srinivasan emphasized that while Indian regulations are now on par with global standards, **shareholder activism** remains weak compared to markets like the U.S. or Japan. Institutional investors in India often side with the company rather than acting as an independent check, and the **market for corporate control**—the ability for external actors to take over poorly governed firms—remains underdeveloped.

However, the **mandate for gender diversity** on boards has been a positive step, requiring at least **one woman independent director** on corporate boards. Srinivasan also noted that Indian law mandates various **board committees**, such as the **Audit Committee**, **Compensation Committee**, and **CSR Committee**, to ensure accountability and governance best practices.

3. Activism and Corporate Governance in India: Insights from Ms. Krupa Hegde

Ms. Krupa Hegde provided insights into **corporate governance in India**, particularly within **family-dominated companies**. These companies tend to be cautious about **stakeholder proposals** and often prioritize internal governance over external influence.

She explained that shareholder activism has gradually increased in India, driven by factors like **development, growth, and corporate scandals**. Shareholder approval is required to appoint directors, although **contradictions** exist, such as the 3-year tenure for directors versus **RBI's discretion** in granting approval.

Hegde highlighted several case studies where shareholder activism played a crucial role:

- **Aavas Financiers**: Shareholders were engaged in a specific **ESOP scheme**, where regulatory guidelines required detailed disclosures.
- **Siemens**: A proposed **related-party transaction** was rejected by shareholders due to its open-ended nature, reflecting increased shareholder vigilance.
- **Vedanta's delisting**: Shareholders rejected the delisting offer, citing an insufficient **exit price**.

These examples illustrate that Indian investors are becoming more careful and assertive in their decision-making. Although **shareholder rights** were previously diluted by preferential issues or private placements, **SEBI** has taken steps to address these concerns.

During the interactive session, Prof. **Jaideep Sarkar** posed thought-provoking questions on Japan's motivations for changing its governance system. He emphasized that traditionally, Japanese companies focused on **long-term sustainable growth** rather than immediate profitability. Sarkar noted that Japan is home to **40% of the world's companies** that have survived over 100 years, reflecting the nation's focus on corporate longevity. However, following the **economic bubble** in the 1990s, Japan adopted more **Western governance mechanisms** to address accountability and transparency. In this regard, he posed a questioned to Takeda on why Japan has to follow US or western mechanism of corporate governance when its present system is working fine.? Other questions from the audience revolved around board evaluation, and the state of shareholder activism in India.

The audience feedback for the seminar was overwhelmingly positive, with participants expressing that the discussions were both insightful and highly relevant to the evolving landscape of corporate governance. With around **40 participants online** and **15 attending in person**, attendees appreciated the depth of knowledge shared by the speakers, particularly the comparative analysis of governance practices in India and Japan.

The seminar provided rich insights into the evolving corporate governance frameworks in Japan and India. While Japan has made significant strides in introducing **shareholder activism** and **governance reforms**, the focus remains on balancing **long-term growth** with shareholder value. In contrast, India is still building its culture of **shareholder activism**, but with strong regulatory frameworks and increased shareholder engagement, it is moving in the right direction.

To watch the seminar recording, please click here.