UBE transitioned from a Company with Board of Corporate Auditors to a Company with Audit & Supervisory Committee structure in keeping with an amendment of the Articles of Incorporation that was adopted at the Ordinary General Meeting of Shareholders held on June 27, 2019. Yuzuru Yamamoto, Chairman of the Board of Directors, and Seiichi Ochiai, an independent outside director and Chairman of the Audit & Supervisory Committee, and who is a commercial law researcher, discussed the purpose of the transition and the resulting changes.

Left
Yuzuru Yamamoto
Chairman of the Board

Right
Seiichi Ochiai
Outside Director
Chairman of the Audit & Supervisory Committee

We have shifted to a Company with Audit & Supervisory Committee structure. The UBE Group will pursue further growth through all employees being committed to doing things better.

How does a Company with Audit & Supervisory Committee differ from a Company with Board of Corporate Auditors or a Company with Nominating Committee?

Ochiai: The board of directors of a Company with Board of Corporate Auditors needs to decide by itself all important business matters. That tends to centralize management decision-making, and supervision of business implementation is often inadequate as a result.

There are therefore two organizational setups under the Companies Act to rectify such a situation. One is a Company with Nominating Committee. The other is a Company with Audit & Supervisory Committee. A Company with Nominating Committee enables the use of a monitoring model, with executives looking after management and the board of directors overseeing management. A Company with Audit & Supervisory Committee is halfway between a Company with Board of Corporate Auditors and a Company with Nominating Committee. Its board of directors does not have statutory Nomination and Remuneration Committees, and this organizational setup makes it easy to transition from a Company with Board of Corporate Auditors. While a considerable number of listed companies have transitioned, a minority have Company with Nominating Committee setups.

Yamamoto: A Company with Nominating Committee structure is basically a European or American approach. By clearly separating executive and supervisory roles, this organizational setup enables

companies to grow fast and increase corporate value. I understand that while there were moves in Japan to adopt such structures, there were unfortunately few outside directors to offer monitoring, so this structure was not widely adopted. It was thereafter considered easier to shift to a Company with Audit & Supervisory Committee structure, a halfway marker under the law, whose purpose is to improve corporate value.

Accelerating decision-making should improve growth rates.

Why did UBE transition to a Company with Audit & Supervisory Committee structure?

Yamamoto: We discussed the benefits and issues of the Audit & Supervisory Committee setup and the best deployment approaches since the revision of the Companies Act in 2014. UBE has long had numerous outside directors, and they have always felt free to air their views with others on the Board of Directors, and executives have been very responsive. So, because governance has functioned well, some said there was little need to shift to a Company with Audit & Supervisory Committee structure. But since a board makes all important business implementation decisions in a Company with Board of Corporate Auditors, there are issues of management agility. So, directors increasingly wanted to shift to a Company with Audit & Supervisory Committee structure. Another consideration was the identifying of inappropriate quality inspections last year. On reflection, we realized that our corporate governance system needed more than a Company with Board of Corporate Auditors setup. We are also at a turning point this year, notably in terms of having a new President and CEO, reorganizing into a three-company operating structure, and having embarked on a new medium-term management plan. We therefore decided to adopt a Company with Audit & Supervisory Committee structure.

Ochiai: The Board of Directors has delegated important business implementation decisions to management. In this era of fast global changes, important management decisions are up to top executives rather than the Board. The President and CEO can act swiftly and boldly in keeping with the business climate and focus on improving corporate value. With management clearly in charge of implementation, with Board oversight, it is then possible to properly evaluate management's overall performance in attaining goals.

What is the scope of important business implementation decisions delegated to the CEO?

Yamamoto: If you adopt a Company with Audit & Supervisory Committee structure, you can delegate authority reasonably soon to executives to handle measures. For particularly important business implementation decisions, executives traditionally submit interim reports to the board and then explore final decisions in light of the board's views. By continuing that approach, the board can transfer authority and leave things up to management to make rapid progress.

Ochiai: Even if the board delegates decision-making to management, if management believes that it needs to seek opinions from third parties, including outside directors, it is free to explain that situation to the board. It is also possible for management to go back to the board to seek a decision on a matter, and there can even be a gradual delegation of authority in line with realities at a company, so delegation should be flexible.

How will the Company change with the focus of the Board of Directors shifting to management oversight?

Yamamoto: In a Company with Audit & Supervisory Committee, the board can flexibly determine

the extent to which it delegates important business implementation decisions to top management. The board's role is to use the new organizational setup to provide direction so executives autonomously improve their efforts. Executives can manage more flexibly and make faster decisions if a lot of authority is delegated to them. To that end, executives need to explain to the board that they are proceeding properly and steadily producing results.

Ochiai: It is important for the Board of Directors to carefully assess the UBE Group's situation and delegate authority to the proper extent. At the same time, executives need to explain to the Board how much freedom they need to fulfill management responsibilities, and have the Board sufficiently deliberate this. In other words, both sides likely need to move forward to complete the new organizational setup.

Yamamoto: Accelerating decision-making should improve growth rates. Even if goals remain the same, a nimbler management should deliver results faster. We can therefore anticipate results and take next steps more quickly.

How will auditing change owing to the transition to a Company with Audit & Supervisory Committee structure? How will you ensure the effectiveness of the internal control systems you need?

Yamamoto: To date, our auditing section has inspected business sites, while auditors have also assessed sites from their own perspectives, highlighting any areas needing improvement. Executives now handle such tasks and need to demonstrate to the Audit & Supervisory Committee that there are no issues. At around the same time as the shift to a Company with Audit & Supervisory Committee setup, we are changing the organization, appointing an executive officer to look after the Auditing Department and strengthen internal controls. There will be a framework for executives to improve governance.

Ochiai: Creating and running a solid internal control system will become an even more important management responsibility. With an executive officer put in charge of the Auditing Department, we anticipate a more robust internal control system. This should enable the management team to match or outperform other companies. I would like executives to step up their efforts in that regard. From here on, we will rely on this internal control system while the Audit & Supervisory Committee checks whether our internal control system functions properly. It is also important to note that members of the Audit & Supervisory Committee are Board members with voting rights, unlike auditors, so they can be useful to improve the supervisory aspects of the Board. This is a major change in my view.

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Finally, what is your current business situation?

Yamamoto: We have updated our business philosophy. As well, we have shifted to a Company with Audit & Supervisory Committee structure and changed our management team. By reorganizing into a three-company operating structure, each company can become more agile and strengthen its defensive capabilities. We have also launched a new medium-term management plan. The UBE Group will pursue further growth through all employees being committed to doing things better.

Ochiai: We are steering our ship in exciting new directions, and I look forward to the voyage. I am convinced that we are well positioned to deliver solid corporate value over the medium and long terms.