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Article

Stakeholders vs Shareholders: The Clash of Corporate Governance Models in Japan's Fujitec Ltd. and Oasis Management Showdown

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While UK/US firms, in response to efforts to become more sustainable and contribute to the Sustainable Development Goals, increasingly have been adopting a stakeholder model of corporate governance, the shareholder model that has dominated governance for the past several decades still exerts a great deal of influence over how UK/US firms behave. By contrast, Japan's traditional model, emphasising community and long-term stability, lacks transparency. Recently, Japanese firms have begun aligning with UK/US governance, but this paper suggests the emergence of diverse sub-models, combining both models' elements, will define the future. The case of Fujitec Ltd. and Oasis Management offers valuable insights for managers, policymakers, and practitioners to navigate international corporate governance complexities, support informed decision-making, and encourage effective stakeholder engagement.

INTRODUCTION

Corporate governance is an essential aspect of managing a successful business, and there are various models that companies worldwide use to achieve their objectives. One of these models is the Japanese stakeholder-focused corporate governance model, which emphasises building relationships and considering all stakeholders' interests, including employees, customers, and suppliers, rather than focusing only on shareholders. In contrast, the traditional Anglo-Saxon shareholder value-driven model, that prevails in the UK and the US, is based on shareholder primacy and emphasises maximising shareholder value above all else. This model prioritises increasing the market value of the company and shareholder returns, sometimes at the expense of other stakeholders.

The conflict between these two models is hardly a new one as it is the subject of many debates in both historical and modern contexts (Deakin, 2005; Gamble & Kelly, 2001; Vinten, 2001). The stakeholder-focused model, considering factors like employees, suppliers, and the environment, promotes balanced growth and sustainability. In contrast, the shareholder-focused model primarily aims for immediate financial returns, potentially overlooking broader impacts.

The contrast between the two approaches was recently highlighted in the case of Fujitec Ltd. and Oasis Management, where the Hong Kong-based investment fund challenged the Japanese company's governance structure and called for changes to maximise shareholder value.

In recent times, there has been an increasing call for a shift towards a more stakeholder-centric approach in corporate governance, aimed at counterbalancing the shareholder-oriented bias prevalent in the Anglo-Saxon model. On the other hand, Japan is working to modernise its traditional corporate governance structures by aligning them more closely with the Anglo-Saxon model, emphasising the enhancement of shareholder rights. The conflict between Fujitec Ltd. and Oasis Management exemplifies the tension arising from the clash of these two models, underlining the challenges that surface when they intersect.

It also provides clues about the potential resolution of the conflict in the form of a "conversion to diversities" (Aoki, 2010) or hybrid models. One that is emerging is "Japan's Model 2.0" (Miyajima, 2021) in which the old traditional model is not abolished, but rather retrofitted to respond to challenges involving shareholders and broader stakeholders such as the reassessment of rent distribution.

JAPANESE STAKEHOLDER-FOCUSED CORPORATE GOVERNANCE MODEL

The Japanese stakeholder-focused corporate governance model emphasises the interests of various stakeholders, originating from Japan's post-WWII economic recovery. This bank-based, relationship-oriented system prioritises

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employees, customers, and suppliers, aligning with the "egalitarian concept and the preference for human capital providers over monetary capital providers" (Shishido, 2001: 661).

Key features include industrial groups or keiretsu, led by a main bank that monitors and provides support. Keiretsu fosters interlocking directorships and cross-shareholdings, safeguarding against hostile takeovers and promoting long-term goals. Employees are central to this model, benefiting from high social security, lifetime employment, and seniority-based promotions. Insider boards of directors are common.

The stakeholder-focused model supports sustainable growth and social equality but faces drawbacks like slow decision-making due to the collaborative approach. This can limit companies' adaptability and competitiveness. The focus on long-term planning may also hinder innovation and change. Furthermore, lifelong employment limits labour force mobility, posing challenges for those seeking career changes, especially middle-aged workers (Genda & Rebick, 2000).

ANGLO-SAXON SHAREHOLDER VALUE-DRIVEN MODEL

The shareholder value-driven paradigm originates from Milton Friedman's 1970 article (Friedman, 1970), asserting that businesses should prioritise shareholder interests. The model based on this approach gained popularity in the US in the 1980s, advocating for shareholder-centric corporate governance to enhance financial performance and accountability (Jensen & Meckling, 1976; Lazonick & O'Sullivan, 2000).

Key principles of this model include shareholder primacy, focusing on short-term financial gains like share buybacks, dividend payouts, and cost-cutting measures (Lazonick, 2014). Executive remuneration is often tied to short-term financial performance indicators instead of long-term strategic objectives. Stakeholder engagement is limited, as the primary focus remains on catering to shareholder needs, reflecting the belief that corporate leadership's primary fiduciary duty is to shareholders (Stout, 2012).

The model's narrow focus on shareholder interests can lead to employee disengagement, affecting productivity and organisational performance. Additionally, the prioritisation of shareholder returns exacerbates social inequality, as executive compensation structures reward short-term financial performance, widening income disparities (Bebchuk & Fried, 2003). Limited stakeholder engagement may negatively impact employee engagement and loyalty, leading to potential backlash from disregarded stakeholder groups.

The focus on shareholder value maximisation may also compromise sustainability efforts, as organisations prioritise immediate financial gains over long-term environmental and social considerations (Zhao, Dilyard, & Rose, 2022). This approach can result in negative externalities like environmental degradation and community harm, highlighting the need for a more responsible approach to value creation.

THE CONFLICT BETWEEN FUJITEC LTD. AND OASIS MANAGEMENT

Fujitec, founded in 1948, is a Japanese multinational specialising in elevators, escalators, and moving walkways. With a global presence and a $1.9 billion market valuation, it is a leading manufacturer. Oasis Management, established in 2002 by Seth Fischer, is a Hong Kong-based investment firm focusing on value-oriented investments in Asia. Managing assets for pension funds, endowments, and family offices, Oasis employs an active investment strategy, targeting undervalued companies with growth potential and engaging with management to enhance shareholder value.

In 2022, Oasis Management acquired a 9.73% stake in Fujitec Ltd., later increasing to 16.52% by November, making them the leading shareholder. Oasis criticised Fujitec's governance and ethics, urging improvements. Before Fujitec's Annual General Meeting (AGM) in June 2022, Oasis questioned related-party transactions involving the Uchiyama family and opposed the reappointment of then-Chief Executive Officer (CEO) Takakazu Uchiyama. Although an internal inquiry found no substantial evidence, Fujitec withdrew Uchiyama's candidacy before the meeting. Uchiyama later became chairman in order to mitigate potential business repercussions. The chairman is not supposed to be actively involved in day-to-day management decisions, and this role, at least formally, is less influential compared to his previous role as CEO (Nihon Keizai Shimbun, 2023a).

Oasis Management expressed disapproval of the external directors who supported Uchiyama's nomination for the chairmanship, and consequently petitioned for an extraordinary general meeting in February 2023 to supplant those directors (Nihon Keizai Shimbun, 2022). Oasis posited that Fujitec displayed no interest in enhancing corporate governance, but instead sought to solidify the Uchiyama family's dominion over the company. As of March 2021, the Uchiyama family held a 6.19% stake in Fujitec.

In anticipation of the Extraordinary General Meeting (EGM), Fujitec's Chief Executive Officer, Takao Okada, who assumed his position subsequent to the AGM in June 2022, expressed opposition to Oasis's proposition concerning the termination of six external directors, asserting that such an action "may undermine the corporation's value" (Nihon Keizai Shimbun, 2023). Contrarily, Fujitec suggested the nomination of two supplementary external directors to reassure shareholders of the organisation's commitment to promoting corporate governance reforms.

The outcome of the vote during the extraordinary general meeting culminated in the atypical event of external directors being dismissed due to a shareholder motion. Shareholders endorsed the removal of three out of the five external directors (with one of the initial six directors having resigned before the EGM) as proposed by Oasis. Fujitec's proposition to appoint two new external directors was declined, whereas the nomination of four out of six ex-

Table 1. Comparison of the Japanese Stakeholder-Focused and Anglo-Saxon Shareholder Value-Driven Corporate Governance Models.

Corporate Governance Model	Key Principles and Features	Pros	Cons	Source
Japanese Stakeholder-Focused Model	Prioritises the interests of employees, customers, suppliers. Features keiretsu (industrial groups), insider boards, lifelong employment, and seniority-based promotions.	Promotes sustainable growth and social equality.	Slow decision-making due to collaborative approach, limits adaptability and competitiveness. Lifelong employment limits labour force mobility.	Genda & Rebick, 2000; Shishido, 2001
Anglo-Saxon Shareholder Value-Driven Model	Focuses on shareholder primacy, short-term financial gains. Executive remuneration is tied to short-term financial performance indicators. Limited stakeholder engagement.	Enhances financial performance and accountability.	Can lead to employee disengagement, exacerbates social inequality. Prioritisation of shareholder returns compromises sustainability efforts.	Bebchuk & Fried, 2003; Friedman, 1970; Jensen & Meckling, 1976; Lazonick, 2014; Lazonick & O'Sullivan, 2000; Stout, 2012; Zhao et al., 2022

ternal directors, proposed as recommended by Oasis Management, was accepted. Consequently, the restructured board comprises nine directors: three internal members, inclusive of CEO Takao Okada, two previous independent directors whose suggested dismissal was negated, and four newly designated directors. Even though Fujitec's proposed directors maintained a majority of the seats, the management team experienced a replacement of nearly half its members.

The findings from the general meeting highlight a widespread sentiment among Fujitec's shareholders that the company's corporate governance practices require enhancement. Nonetheless, the outcome of the vote does not manifest unequivocal backing for Oasis, as the ballot revealed a profound schism among the shareholders. The ousting of three directors garnered 50%-58% approval, while the election of four new directors received endorsement by 51%-59% of the voters, as reported by Nihon Keizai Shimbun (2023b).

In March, the termination of Takakazu Uchiyama's role as Chairman at Fujitec Ltd led to a serious hit on the company's reputation. The dispute intensified in April, as Fujitec announced plans to introduce eight new directors, blaming their governance troubles on "chaos" instigated by Oasis's involvement (Nihon Keizai Shimbun, 2023c). This public display of disagreement amplified the reputational harm. Matters got worse when the former Chairman launched a defamation lawsuit against Oasis Management, thereby undercutting faith in the firm's governance and escalating the risk to the company's reputation (Nihon Keizai Shimbun, 2023d).

ANALYSIS OF THE CONFLICT

Pressure from foreign investors and activist shareholders is not new for Japanese companies (Jacoby, 2007). Efforts to change Japanese corporate culture, particularly corporate governance, have been undertaken by foreign investors, with varying degrees of success, since the 1990s, after an asset bubble burst in Japan, followed by the "lost decades" of low economic growth and deflation. The traditional model of corporate governance favoured by the main banking system, which was critical to the functioning of *keiretsu,* and the cross-shareholding that was once a defence line against unfriendly takeovers gradually became detrimental approaches amid the deterioration of the banks' balance sheets due to a combination of mounted non-performance loans and loosening cross-shareholding in a poorly performing stock market.

To revive the economy and promote growth, the government of Prime Minister Shinzo Abe introduced a package of reforms called "Abenomics" starting in 2012. "Abenomics" consisted of three pillars or "arrows": monetary and fiscal measures and structural reforms. The implementation of the Stewardship and Corporate Governance Codes, which are very similar to the UK codes, in 2014 and 2015, respectively, aimed to transform the traditional corporate governance model on the principles of transparency, accountability, and protection of shareholder rights.

The Tokyo Stock Exchange (TSE) played a critical role in adapting these principles within listed companies. In 2022, in 99% of the companies listed in the first section of TSE, two or more directors were independent; in 92% of the companies, one-third or more were independent (TSE, 2022).

The significance of the conflict between Fujitec Ltd. and Oasis Management is that the fund requested a change of independent directors while all the metrics and, therefore, the "letter" of the regulations were in place. The fact that the shareholders partially voted in favour of dismissing the independent directors chosen by the company and replacing them with shareholder-nominated candidates created a precedent for close access of large shareholders to operational management decisions, breaching the traditional "insider" nature of Japanese corporate governance. The question will be to what degree the independent directors are biased towards management or, as an outcome of the conflict between Fujitec Ltd. and Oasis Management showed, towards the shareholder and how the distribution of power exercised over managerial decisions will be affected.

Worth noting is that it is not unusual for the issue of the independence of these directors to be brought to light in the cases like this. While independence is important, there is no one definition that covers all situations. Aside from past direct and non-direct relations with the company in question, the very issue of the compensation that the company provides may compromise the directors' independence as does their length of tenure.

The reaction of Nihon Keizai Shimbun, the leading business media outlet in Japan and the owner of the Financial Times, to the conflict and its outcome, was measured. Its editorial article reasoned that while the dismissal of independent directors was an unusual event, the pressure from shareholders on management in Japanese companies is growing and that "it is time to move away from reforms that only take shape and aim for governance that leads to improved competitiveness" (Nihon Keizai Shimbun, 2023e).

The sharp divide among shareholders at Fujitec's 2023 Extraordinary General Meeting underscored that no solution suits all shareholders' interests. Japanese companies traditionally prioritise the interests of all stakeholders, including customers, employees, and the community. However, increasing pressure from abroad—*gaiatsu*, instigated by foreign investors and activist shareholders—along with the government's efforts to foster corporate governance reforms, may trigger a shift towards a more shareholder-centric system. This approach could become another sub-model of corporate governance that arises from Japan's unique cultural and institutional context. It would balance stakeholder interests while acknowledging the role of shareholders. Ultimately, the future of corporate governance in Japan will hinge on a complex interplay of external pressures, internal culture, and overarching economic and political trends.

ACTIONABLE INSIGHTS

The corporate governance dispute between Fujitec Ltd. and its significant shareholder, Oasis Management, draws attention to the wide-ranging disparities in governance approaches and the significant repercussions they bear on international corporations and stakeholders. This case underscores the influential role of activist shareholders in modifying board makeup and governance structures, necessitating proactive engagement with these activists by multinational businesses. However, it also shows that such face-offs can trigger reputational damage, a factor critical for a business's longevity (Aguilera, Crespí-Cladera, & de Castro, 2019), especially in Japan, where trust and enduring stakeholder relationships shape the corporate governance model.

The following are some actionable recommendations based on the conflict between Fujitec Ltd. and Oasis Management, which offer to international business practitioners strategies for navigating the diverse corporate governance and business environment. These are summarised in Table 2.

UNDERSTAND CULTURAL AND INSTITUTIONAL CONTEXT

Deepen your grasp of the cultural and institutional milieu. For a foreign business looking to establish itself in Japan, learning the country's business culture, customs, and practices is vital. This encompasses understanding consensus-building, decision-making hierarchies, and the premium placed on loyalty. Familiarise yourself with the Japanese corporate governance system, stakeholder interests, and recent moves toward a shareholder-focused model.

CONDUCT DUE DILIGENCE AND ENGAGE WITH MANAGEMENT

Undertake thorough research on potential investments by examining their financials, operations, and market standing. Use this data to devise your investment strategy and proactively engage with management to address concerns and suggest governance improvements.

OVERCOME RESISTANCE AND BUILD ALLIANCES

Anticipate possible opposition to your proposals from entrenched managers and devise strategies to counter this resistance.

UTILISE MEDIA COVERAGE AND MONITOR IMPLEMENTATION

Effectively employ media platforms to convey your investment philosophy and intentions. However, it is important to balance this strategy by considering the potential reputational damage that may arise from publicising conflicts involving the parties involved.

STAY INFORMED AND ADAPT STRATEGY

Staying informed about changes in regulations or governance practices is critical for the effective adaptation of your strategy. Actively track amendments to regulative documents and policies, such as revisions to the Corporate Governance Code, as it may provide insights into future developments in corporate governance.

MEASURE SUCCESS OVER THE LONG TERM

Rather than expecting immediate returns, evaluate your efforts' success over a longer period.

CONCLUSION

In conclusion, the Fujitec Ltd. and Oasis Management conflict underscores the importance of comprehensive strategies in global corporate governance. Through cultural understanding, due diligence, management engagement, strategic resistance management, alliance-building, media

Table 2. Mastering Global Success: Adapting to Diverse Corporate Governance and Business Practices

Recommendations	Key Points
1. Understand Cultural and Institutional Context	Comprehend the cultural and institutional context, including business culture, corporate governance system, and stakeholder vs shareholder models.
2. Conduct Due Diligence and Engage with Management	Research potential investments, devise your strategy, and engage proactively with management.
3. Overcome Resistance and Build Alliances	Anticipate resistance, devise counter-strategies, and establish alliances with supportive stakeholders.
4. Utilise Media Coverage and Monitor Implementation	Utilise media coverage to share your philosophy and monitor the implementation of proposed changes.
5. Stay Informed and Adapt Strategy	Stay current with regulatory changes and modify your strategy accordingly.
6. Measure Success Over the Long Term	Evaluate your efforts over an extended period and focus on sustainable value creation.

Source: Author's analysis of the conflict between Fujitec Ltd. and Oasis Management

use, implementation monitoring, staying updated, strategy adaptation, and long-term focus, businesses can navigate complex governance landscapes. By integrating these insights, international businesses can proactively handle potential conflicts, nurture stakeholder relationships, improve reputation, and ensure long-term success.

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