

Feature: Group Governance Issues and the Future of the Fuji Oil Group



A Discussion between the CEO and an Outside Director

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As concern about the future grew, new challenges began to emerge. The Fuji Oil Group will need to evolve further and take a more global perspective. One of the keys to this is group governance. Backcasting from its vision for 2050, the Fuji Oil Group will continue to make appropriate reforms.

In October 2015, Fuji Oil shifted to a holding company system that delegates authority to each of its regional headquarters. Under the banner of Plant-Based Food Solutions (PBFS), the Fuji Oil Group is now implementing reforms for the future. Keys to those reforms are "governance," "global" and "group." In this feature, CEO Hiroshi Shimizu and Outside Director Kazuhiro Mishina discuss topics such as the current state of management and areas that still need improvement.

Mishina Since you became president, Fuji Oil has launched a number of reforms. I think the reforms to the management structure can be likened to changing from a one-story management structure to a two-story structure with regional execution functions.

I was appointed as an outside director in 2013, when you were named President, but actually I served as an advisor to Fuji Oil's management during the term of Yoshitaka Ebihara, your predecessor. My impression was that Mr. Ebihara, who stepped aside as CEO to become chairman, felt he had done all he could as an researcher. He seemed to think that in order for Fuji Oil to grow further, he should turn its management over to someone with different ideas. You are the first

president at Fuji Oil to come from the sales field. I think Mr. Ebihara believed that you were the one who could change the Company's management structure. I understand my nomination as an outside director was made with the idea of having me serve in a supervisory role in this new management structure.

The management structure you have created came about because you took on the mission of decisively changing Fuji Oil – you have implemented

a series of major reforms, including establishment of the Group Management Philosophy and introducing governance reforms. What changed was that Fuji Oil was previously a "one-story house," so to speak. The three rooms of that one-story house were occupied by the oils and fats business, the confectionery and bakery ingredients business, and the soy business. Even in overseas expansion, Fuji Oil's style was simply to deploy the technology, market development expertise and sales techniques it had developed in Japan. I guess a sense

of crisis that this approach was no longer working was the impetus for the change in president.

The holding company system that you adopted was akin to a major expansion of the one-story house into a two-story building. Regional headquarters around the world were set up on the second floor, with the previous Fuji Oil serving as the foundation. In other words, the new structure was a clear shift to a region-based perspective rather than management by business line, which had previously been the approach.

Shimizu With the rapid pace of change today, I feel a sense of crisis every time I think about global management. Our moves to strengthen global management and group governance have only just begun.

As you said, we have switched to a two-story structure, but especially recently, I have become more aware that Japan is unique.

Previously, Fuji Oil's approach of viewing the world from Japan was the right approach in some respects. For example, we entered Southeast Asia early on, and achieved success with a Japanese-style business model. When I became president, about 40 percent of our sales came from overseas markets, so I thought our globalization was progressing well. But I came to realize that in fact, we were not a global company, but merely a Japanese company with international business.

What we need to do is think of Japan as just one of our business regions, and conduct governance that is suitable for each region. Don't get me wrong, I'm not saying that Japan is no longer important. The technologies we have cultivated here are important assets that we can use in our overseas operations. But that does not mean that we can simply export our technologies and business model as they are. We need to be

aware that the Japanese market has special characteristics, such as consumers who drive demand for high-value-added products, a declining population and a shrinking economy.

In other words, even though the Japanese-style business model and governance are effective in Japan, it is important not to try to force this model on the rest of the world. Nor should we unilaterally try to adopt global practices in the Japanese model. Rather, it is important to optimize our approach to the characteristics of each region.

Also, even though the accelerating pace of change today involves inherent risks, it also presents opportunities to take on new challenges. Rapidly changing social issues and needs in each region have to be identified by businesses located in those regions, and then aggregated and managed by the holding company.

From these standpoints, there are still issues to be addressed in Fuji Oil's current global management and group governance.

Mishina A region-based strategy is critical to be globally competitive in the food industry, where dietary cultures and preferences differ from region to region.

Taking a global view, each region of the world has its own unique dietary culture and history, and the ways people view food ingredients may differ considerably. In Japan, soybeans are a very familiar ingredient, and soy milk and soy vegetable protein as a meat alternative are readily accepted. In Western countries, though, the choice of ingredients may be completely different – soybeans are strongly associated with livestock feed, almond milk is preferred over soy milk, and wheat and legumes other than soy are the main

types of vegetable protein. For functional foods, soybeans are processed in Japan, but in the West, peas are commonly used as the raw ingredient. Oils and fats are another example. China has a culture of cooking at high temperatures, so peanut oil tends to be preferred because of its high smoke point. Even within Europe or the United States, histories and dietary cultures vary according to the country or region, and market needs are distinctly different. This means that Fuji Oil must conduct its business in

each region with a solid grasp of these regional characteristics. In addition, as we implement our Plant-Based Food Solutions, the approach of thinking of the ingredient first – in other words, asking “how can we use soybeans?” – will not necessarily work globally.

Various global management systems exist, and there is no single right one. So for Fuji Oil, whose business is food, I think it's important to operate with a regional perspective. Currently, substantial authority has been transferred to Fuji Oil's regional headquarters. Even though our business operations in Japan, which were formerly centered on the parent company, generate the majority of our profit, that cash is being allocated to other regions. Without this management system, growth of other regions could not be expected. It is important to understand that this is a transition period to lay the groundwork for Fuji Oil's significant growth.

Shimizu Since becoming CEO in 2015, I have carried out reforms toward achieving new growth and tried to show the direction we want to take. However, I recognize the need for discussions of specific practical measures.

Since 2015, we have conducted “two-story” group management, as you mentioned, but we recognized that this was not functioning as well as we had hoped. This prompted us to devise the Mid-Term Management Plan “Towards a Further Leap 2020.”

One focus of this plan is “reinforcement of core competence.” Through business operations and small-scale M&As in different countries, we have tried to build global businesses that will be strong enough to compete successfully in the future. As such, we ascertained that the Group's core competence is hard butters for chocolate and the chocolate business itself. This is what led to the acquisition of Blommer in fiscal 2018. Effectively managing Blommer from fiscal 2019 is the minimum requirement for us to transform into a global company.

However, even as we carry out the mid-term management plan, I strongly feel that there are

Mishina In globalization, the Company's growth engine, there are still a lot of issues to be resolved in each region, and new effective tactics are needed to expand the soy business.

As you said, of the three pillars of the mid-term management plan, “reinforcement of core competence” was dramatically advanced by the acquisition of Blommer.

Shimizu I think we need to always implement both management from a regional perspective and management based on business lines in a matrix-like structure, because if we can't demonstrate our competitiveness as a Group, we won't be able to compete against rival companies worldwide. In the Industrial Chocolate Business, for example, we compete with the same companies in every region, but at the same time, we also supply industrial chocolate to multinational companies that operate globally. We need to improve the competitiveness and credibility of the Group based on the business-line strategy.

Balanced management presents difficulties, such as conflicts of interest between regions, but I want to conduct group management based on this matrix style.

By region, business in the U.S. will become as strong as in Japan. In China, we have established a new factory in Guangzhou, and have made significant progress in liquidating struggling businesses. On the other hand, in Europe, the Company hasn't broken out of the “factory” mindset, as it did in the United States. Despite efforts

such as making a subsidiary of GCB Specialty Chocolates, which is an industrial chocolate manufacturer in Malaysia, there is no denying that we got off to a relatively slow start in Asia. I think we need to have extensive discussions during future Board of Directors meetings about the businesses and areas where there are still issue to be addressed.

Shimizu We have a long history of pursuing alternative foods. Now we need to continue to innovate with our sights set on 2050.

Some people tend to equate PBFS with soybeans, but since 2018, I have been stressing that it is not just about soybeans. Even chocolate is a PBF made from cacao. Also, as you pointed out, there are large regional differences in attitudes about PBFS, so we will not be able to keep up if we only look at ingredients first. We have to think about needs and then come up with an alternative product to meet those needs.

During Fuji Oil's approximately 70-year history, it has researched sustainable foods (alternative oils and fats and alternative proteins) and contributed to society with product innovation. On the other hand, looking ahead to the future, the global population is predicted to increase to nearly 10 billion by 2050. In the near future, our current new employees will be in their fifties and will have

become core personnel, but if things remain as they are now, the supply of protein will have stagnated. In raising children, for example, infant formula made from milk alone will not be enough to meet demand. Fuji Oil can protect the health of that future society with plant-based alternative products. That is one of the objectives of the SDGs. Thinking about conditions in 2050 and backcasting from there, our establishment of the R&D Division for Future Creation, the Innovation Strategy Group and the PBFS Division all seem like logical steps. In 2019, we established the new position of C“ESG”O as the executive responsible for promoting ESG initiatives. Since promotion of PBFS is also essentially our sustainability strategy, we need to focus more on that.

Mishina The Board of Directors engages in free and vigorous discussion in an open atmosphere. I want to further strengthen governance to build a global management structure.

Since we're here for this discussion, I'd like to talk about the Board of Directors reforms. In general, at Japanese companies, the president is the leader of the company, and as such, assumes full authority and in many cases takes control of running board meetings. But you have mastered the art of moderating board meetings. Your role is to encourage open and active discussion by coordinating the flow of discussion. As a result, free and vigorous debate takes place, and I don't think such a democratic board of directors exists at any other Japanese company. At quite a few Japanese companies, board meetings start at 10:00 in the morning and end at noon, but Fuji Oil's board has no scheduled ending time. It's sensitive because a lot of confidential information is discussed, but I always want to let stakeholders see what goes on in board meetings.

The makeup of internal directors has also changed. Previously, the board consisted of representatives from the oils and fats, confectionery and bakery ingredients, and soy businesses, but now board members are appointed based on their strength in particular functions, such as production, R&D, marketing and sales. This enables the board to thoroughly consider proposals from various angles.

As one of its governance reforms, the Company is also considering changing its compensation system. Evaluation criteria and evaluation methods have to evolve to support global management that contributes to a sustainable society. This reform is crucial in order to obtain and keep people who have the requisite knowledge and abilities.





Shimizu I have been focusing on diversity and the succession plan since April, and want to evolve Fuji Oil into a company with creativity.

You mentioned that our board meetings have no scheduled ending time, but I think the important point is for directors to give opinions from different perspectives and confirm all of the risks and merits of proposals. The fact that we incorporate this step of thoroughly examining proposals from various angles is what led to our acquisition of Blommér, which entailed a higher level of capital investment than we planned for in the mid-term management plan.

Nevertheless, there are still some issues with the composition of the board. Although bringing together the top people in each function has invigorated discussion, it is not always easy to balance the views of everyone. Fuji Oil has revamped the structure of the board, but I think further improvement is needed in terms of separating management supervision and execution. If this aspect of

Japanese-style governance remains, it could be a significant problem in alliances and M&A with overseas companies.

With that awareness, I have been devoting more attention to this issue since April 2019. In particular, I am focusing on promoting diversity.

As we approach the "super-smart society," which is called "Society 5.0" in Japan, nothing will be more important than creativity. And I believe that how well we are able to exercise creativity will depend on diversity. I will work to promote diversity in the Company while strongly encouraging the participation of women, which is a particular issue in Japan. Second, I fully realize the importance of cultivating the next generation of management talent. I will concentrate on a succession plan with the aim of developing management candidates who can think creatively.

Mishina As the Company's first outside director, I also have a role to play in designing the system for participation of outside directors so the next generation of outside directors can contribute to effective governance.

I have been involved in the field of talent development for many years, and from that point of view, I would not give Fuji Oil's succession planning passing marks. Efforts are being made in that area under your leadership, but there is something I would like to propose from the standpoint of diversity. Diversity isn't reflected much in the ratio of women in managerial positions, but in fact, many talented women have been promoted to key posts at Fuji Oil Holdings, and I feel that the participation of women is more advanced than it appears. In contrast, at operating companies, there are few women in managerial positions. I think it's important to actively promote women in order to take on new challenges such as PBFS.

Finally, I want to mention outside directors as part of governance reforms. I had been saying that two outside directors is not enough, but in

fiscal 2019 that number was increased to three. I think three outside directors is the minimum necessary for vigorous debate.

More outside directors will need to be added in the future, but there are various thoughts on the ideal number of outside directors or by how much to reduce the number of internal directors.

I have served as an outside director for a number of years. So, based on my experience, I think that increasing the number of outside directors will lead to more vigorous debate. As Fuji Oil's first outside director, I intend to design a system in which outside directors will not assume office as "individuals," but instead will function as a single "body." I would like to pass on a framework for effective governance to the next generation of outside directors.