

**Mr. Isami Wada, former Chairman of Sekisui House, made a shareholder proposal**

## **Aiming to Regain Control with ESG**

He criticizes Sekisui House's current ESG management as "superficial."

Will “World Standard Governance” Wada proposes gain shareholders’ support?

Satoshi Hanzawa, Nikkei ESG

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The land fraud case was not a fraud, but an improper transaction by Sekisui House. Decades of efforts made in ESG management have been lost.

On February 17, 2020, Mr. Isami Wada, former Chairman of Sekisui House who appeared publicly for the first time in two years, spoke for the first 10 minutes of the press conference about the way Sekisui House’s current management dealt with the land fraud in 2018. Sekisui House suffered a loss of approx. 5.5 billion yen from the fraud, which led to Wada to resign.

Wada has made a shareholder proposal to Sekisui House seeking the election of eleven slate directors collectively, including himself.

A director's term of office at Sekisui House is two years, and the current directors are up for reelection this year. A proxy fight might take place for the general meeting of shareholders in late April.

At the press conference, Wada said he will target to achieve “true ESG management”. The company's internal struggle triggered by the fraud incident is likely to evolve into a fight over ESG management.



Mr. Isami Wada, former Chairman, who made a Shareholder Proposal to Sekisui House (Center). Other slate directors were also present at the Press Conference.

### **“World Standard” highlighted**

The shareholder proposal called for "world standard governance." Of the 11 slate directors, seven are outside directors, two of whom are women and two are from overseas.

In the United States and Europe, a board of directors with a majority of outside directors is more common. They have a lot more female directors. Wada also talked about his plans on the disclosure of director remuneration on an individual basis and the unwinding of cross-shareholdings - areas where Japanese companies lag behind from a viewpoint of overseas investors.

Wada's focus on ESG is also evident from the fact that the slate directors include an ESG expert – Ms. Pamela Fennel Jacobs at Spouting Rock Asset Management, a U.S. asset management company. She is expected to play a leading role in ESG, and plans on proactively discussing the topic at Board of Directors meetings. Sekisui House's current fourth medium-term management plan calls for strengthening international business as one of their core strategies for growth. Sekisui House embarked on the homebuilding business in the U.S. by acquiring the U.S. homebuilder Woodside Homes in 2017. "Introducing U.S.-standard governance and aiming to go public on a U.S. stock exchange should help boost stock price," said Wada.

In response, Sekisui House said: “The opinion of the Board of Directors of the Company on the Shareholder’s Proposal will be announced as soon as it is determined.” (Investor Relations Department)

The market response after the press conference has been slow. A securities

firm's research analyst for the housing and real estate industry says "we will see a market response once the company makes its proposal". Japanese housing companies are largely dependent on demand from within the country and have much room for improvement in terms of corporate governance," the analyst added.

We can recall LIXIL Group as a case similar to this. Kinya Seto (current President and CEO), who was ousted by the founding family, proposed the election of directors including himself at a general meeting of shareholders last year, and succeeded in gaining the control back. The key in the LIXIL case was overseas investors. Approx. 40% of the company was owned by overseas investors, a majority of whom appeared to have voted in favor of the shareholder proposal. 22.7% of Sekisui House is owned by overseas investors. The largest shareholders of Sekisui House include Government Pension Investment Fund (GPIF) who owns approx. 9%, and Sekisui Chemical who owns 6.1%. Japanese securities firms, banks, and life insurance companies are also among the largest. How much Japanese financial institutions and asset managers value Wada's focus to strengthen ESG will likely determine the outcome.

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Pamela Fennell Jacobs

Chief Sustainability Officer

Spouting Rock Asset Management

## The Board will monitor ESG

- How have you come to be a slate director in the shareholder proposal?

**Jacobs:** Sekisui House's land incident became a hot topic in the US, too. Late last year, a lawyer I knew who was investigating this matter had the opportunity to

meet with Mr. Wada, former Chairman of the company, and Mr. Wada talked to me about the corporate governance reform that he would like to implement at Sekisui House, as well as his eagerness to rebuild the company. What Mr. Wada was looking for was the increase in the number of outside directors as well as the diversity of the board. The choice fell on me as a woman of American nationality who specializes in sustainability. I have known the U.S. lawyer for 20 years in business.

– What is your evaluation of Sekisui House’s ESG initiatives?

**Jacobs:** They are excellent in E (Environmental). In particular, their efforts for recycling and CO2 reduction are super. The company is also actively involved in SDGs (Sustainable Development Goals) and information disclosure on this front, and is promoting management linked to SDGs for forests, water and energy. I do not see many US homebuilders that have gone so far.

Regarding S (Social), there are issues regarding the human rights of employees and the transparency of communication between employees and management. But I haven't talked to the employees, so I can't say for sure yet.

There is a lot of room for improvement in G (Governance). The key is how you can make the best use of outside directors. In order for fair and objective governance to work, a majority of directors must be outside directors. This is an issue not only for Sekisui House but also for the entire Corporate Japan. Many Japanese companies are complacent with two or three outside directors only, and they will just be seen as trying to keep up appearances.

There are also issues with the diversity of the board. The board should consist of people of diverse backgrounds, genders and ages. In order to avoid management risks and not to miss opportunities, it is necessary to elicit diverse opinions and incorporate them into management decisions. With the board in place at Sekisui House today, the company cannot go public in the U.S. and long-run growth cannot be expected.

– What will your role be at Sekisui House once you are elected?

**Jacobs:** I will supervise and enhance the ESG initiatives. I am expected to function as an ESG expert.

I currently serve as Chief Sustainability Officer at a U.S. asset management company. We manage such funds as ESG funds focusing on small growth stocks, and help ESG elements linked to fund returns. I have been designing fund portfolios while providing ESG insights to over 100 fund managers. I also work as a consultant promoting ESG management to companies. Once elected as a director, I think I can leverage this business experience.