

Corporate Governance and Corporate Growth

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A year has passed since I have resigned my previous roles as ORIX's CEO and Director. In my new role as the Company's Senior Chairman, a majority of my time has been spent providing advices to the management and sharing with all of my colleagues in the Group ideas and hints gained from my dialogues with people in various fields on a wide range of topics.

There were a fair number of developments that took place last year. In the area of corporate governance, various initiatives have taken place such as separation of oversight and operation, and implementation of outside director system. Overall, it has been a year of good progress in terms of corporate governance reform in Japan. While ORIX has pioneered various ways to strengthen its own corporate governance ahead of other companies, it is a good sign that corporate governance reform has been gaining wider acceptance in the Japanese business community.

Until now, frameworks that urge managers toward better financial performance have been lacking among corporate organizations in Japan. Furthermore, as companies were not equipped with systems of oversight and supervision on managers' performance, managers became more inclined towards stability rather than taking bold and innovative decisions.

The participation of outside directors on a board enables objective oversight and evaluation on the management from an external and market oriented perspective. A board with outside directors creates the same kind of tension that exists in a general meeting of shareholders, and such governance system is vital in correcting the mentality of managers whose missions are no other than to maximize corporate value.

The role of an outside director is to make an independent judgment on whether the annual business plan proposed by the CEO is appropriate or not, make evaluation on the progress towards annual targets throughout the year; or to determine whether the company's long term business directions and policies for management team's succession plan

and appointment policy are sound. In other words, an outside director is there to oversee the company in areas such as financial performance, management's capability to run the business operation, and management's ability to formulate genuine strategies. I often hear that the reason behind the rather cautious stance toward appointing outside directors was the lack of knowledge on the business. However, I think people often overlook the fact that the primary objective of an outside director's role is to conduct oversight, and the ability to provide advice based on specific industry knowledge is not necessarily a must. I hope that as the supervisory function by outside directors matures and strengthens, corporate values of Japanese companies will also improve accordingly.

What shareholders expect of the management are "stable and continuous profit" and "continuous growth." However, there are times when the pressure from the stock market, which is primarily dominated by institutional investors, becomes excessively focused on short term shareholder returns. It is the voice from the market like this that pressures managers to devise a sustainable growth strategy based on a well balanced consideration between capital efficiency and financial soundness, and investment for future growth, and put such strategy into practice.

A company's mission is to create new value that energizes the economy, and ultimately contributes to the society. A company also should take up new challenges in a dynamic and flexible fashion amid the constantly changing environment. In doing so, it is possible only if the company has a solid corporate governance system that properly supervises its management.

ORIX has been proactively strengthening its management oversight and supervisory functions until now, and such endeavors certainly have contributed to the Company's growth and also the new value it has created thus far. From the standpoint of the Company's Senior Chairman, I will continue to support ORIX in achieving sustainable growth and further transforming itself into a company that is capable of making greater contribution to the society and economy in the future.