CORPORATE GOVERNANCE

As is well known, the Japanese economy has suffered from a prolonged period of stagnation since the end of the bubble economy in the early 1990s. During the so-called “Lost Decade,” Japan’s socio-economic framework underwent a drastic change including an intensive review of Japanese management practices. Corporate governance has now moved to the fore as an issue of national importance. It is widely believed that the conventional management system of Japanese companies cannot fully cope with the various challenges which they are expected to face in the 21st century. A number of major Japanese companies have already gone so far as to adopt American norms for corporate governance. THK is also working to establish an efficient corporate structure and a system of corporate governance befitting the changing operating environment.

In response to these needs, we have established a “Management Meeting” to complement the ordinary Board of Directors meeting. The Board of Directors meeting is composed of 14 directors. The Management Meeting, by contrast, is composed of the President together with two senior directors and functions as the company’s supreme decision-making body. The President also serves as the company’s CEO (Chief Executive Officer). The members of the Management Meeting are not directly engaged in the execution of day-to-day business operations. By establishing the Management Meeting, THK has separated the monitoring function from the business execution function in order to facilitate prompt decision making and clarify management responsibility. When necessary, the Management Meeting can enlist the service of executive officers and others to collect any required information, and solicit objective opinions from third parties such as lawyers and certified accountants by conducting hearings. The Management Meeting is held on a discretionary basis and seeks formal approval for policies adopted by means of a vote at the Board of Directors meeting. The Management Meeting and the Board of Directors meeting thereby cooperate in a natural way to promote prompt decision making.

In order to increase the monitoring function and management transparency, many Japanese companies have introduced outside directors. THK, on the other hand, has taken a rather cautious attitude in this respect, since we believe that members of the Board of Directors should possess in-depth knowledge and expertise in our business affairs. As an alternative, THK is trying to strengthen the auditing function. The Meeting of Auditors, which is composed of two statutory and two part-time auditors, monitors whether or not the settlement of accounts and other important business issues are executed in an appropriate way. In addition to the Meeting of Auditors, we have the Internal Audit Office with two full-time staffs, which monitors whether or not our business operations are being conducted in compliance with our internal rules.
We have carefully considered the possibility of introducing an executive officer system, and have concluded that reform of the present system of management should be made a high priority. We are positively disposed to the introduction of executive officers. Unfortunately, under the current Commercial Code, the status of executive officers is legally ambiguous. We regard a change to the Code as a necessary precondition to the introduction of an executive director system and will very likely introduce such a system as soon as the Commercial Code is modified.

We have also been attempting to increase the accountability of our company to shareholders through the provision of timely information and accurate disclosure. The IR Group of the President’s Office takes responsibility for this function. This group not only makes available the necessary regulatory information but also attempts to insure that price-sensitive information is released in a timely fashion.

Compliance has become increasingly important for Japanese companies, to the point that the fate of the company is sometimes dependent on the degree to which its compliance with rules and regulations can be demonstrated. In response to this situation, THK has established a compliance system and enforcement mechanisms. For example, we export machine parts meaning that we are subject to the Trade Control Law, which lists controlled products and countries to which exports are prohibited. THK has established the Trading Administration Department in order to monitor compliance of the company’s export activities with applicable constraints and to manage the associated risks.

The dividend payout ratio is currently attracting a lot of attention in Japan. We believe, however, that this measure is not suitable for companies like THK, whose earnings are greatly affected by business fluctuations. We believe that it is important to appropriate earnings for dividends according to the actual level of earnings achieved. We also believe that the best way to reward our shareholders is to maintain a stable dividend policy and to maximize our long-term corporate value. We believe that this goal is best served if retained earnings are reinvested so that THK can maintain its leading market position.