Glossary

storm in a teacup when people get angry or worried about something that is not important

cast into sharp relief brought attention to

villain of the piece the negative or bad person in the situation

hefty big, heavy

thwarted defeated

litmus test something which is regarded as a simple and accurate test of a particular thing

baubles worthless jewels

Corporate governance in Japan

Message in a bottle of sauce

Japan's corporate governance is changing, but it's risky to rush things

1 IT was not a storm in a teacup but a battle over a bottle of sauce. The fight for Bull-Dog Sauce, a Japanese condiment-maker with 27% of the sauce market, cast into sharp relief the conflict between no-holds-barred Anglo-Saxon capitalism and the traditional Japanese approach to corporate governance.

2 The supposed villain of the piece was Steel Partners, an American investment fund that since 2000 has invested more than $3 billion in some 30 Japanese companies. Having built up a 10% stake in Bull-Dog, Steel launched a takeover bid offering to buy all outstanding shares in the company for around $260m, a 20% premium over the share price at the time. Bull-Dog's management opposed the bid. Steel was accused of being a "greenmailer" – a predator that buys a large share in a company, threatens to take it over and then agrees to drop its bid and sell its stake back to the company at a hefty premium. Warren Lichtenstein, Steel's boss, insisted that Steel had a long-term commitment to Bull-Dog. But on a visit to Tokyo to meet Bull-Dog's management, he made matters worse by saying he planned to "educate" and "enlighten" Japanese managers about American-style capitalism.

3 At its shareholder meeting in June, Bull-Dog proposed to enact a "poison pill" defence that involved issuing three new shares for every existing share to all shareholders – except Steel, which would instead receive cash, diluting its original stake. Mr Lichtenstein gave Bull-Dog a warning saying that the poison pill could set a dangerous precedent and deter investment in other Japanese companies. But that, of course, was the whole idea. The poison-pill motion was passed, and although Steel mounted a legal challenge, Bull-Dog's right to use the device was upheld by the courts. So the foreign investors were thwarted, but at great cost to Bull-Dog.

4 The Bull-Dog saga was a litmus test for attitudes to shareholder capitalism. Those who believe that companies should be run to maximise the returns to shareholders thought that shareholders should have accepted Steel's generous offer; but those who hold the traditional Japanese view that companies are social communities, not baubles to be bought and sold, disapproved of Steel's treatment of a venerated 105-year-old company. Gerald Curtis, a Japan-watcher at New York's Columbia University, says Steel's "heavy-handed, flat-footed approach" has made it more difficult for others to argue that companies should pay more attention to their shareholders."

5 However, a Japanese investment fund, Ichigo Asset Management, did manage to successfully persuade shareholders in Tokyo Kohtetsu, a steel company, to reject a merger plan with Osaka Steel. Ichigo, which held a 13% stake in Tokyo Kohtetsu, approved of the logic of the deal but felt that the proposed share-swap, which is a financial arrangement by which shares of one company are exchanged for another, short-changed Tokyo Kohtetsu's shareholders. It was the first time that shareholders in a Japanese company had ever rejected a merger plan. This shows the changing attitudes to shareholder value.

6 Other aspects of Japanese corporate governance are also being slowly transformed. Recently the Japanese government gave Japanese companies a choice of two models of corporate governance: the traditional Japanese system with statutory auditors and an alternative committee-based system, modelled on the American approach, which involves separate audit, remuneration and nomination committees with a majority of outside directors. This was the most explicit example of the government's efforts to encourage Japanese companies to adopt a more American style of corporate governance. ■

The Economist

Reading 2

Read the text below which gives a journalist's opinion on the same subject. Does he/she think that ...

1 pay is too high?
2 bad governance is the reason for high pay? Why/Why not?
3 legislation placing restrictions on levels of pay would be a good idea? Why/Why not?

The Economist

Glossary

under the thumb under the influence or power of someone

bonanza boom

crack the whip show who's in charge

cronies close friends

Corporate governance and pay

Let the fight begin

Give shareholders a vote on pay; but don't let regulators interfere too much

1 "OBSCENE", "bizarre", "a scourge": Europe's politicians are in no doubt that bosses' high pay is a scandal. If they are right, the continent's companies are in grave danger. Executive pay is not only a measure of what society judges as fair; it is also a test of whether a business is run for its shareholders. If a board can motivate managers, it will get the best out of them. If it cannot stand up to the chief executive and his cronies over their pay, then it will struggle to control them when they want to buy this dud rival or diversify into that dead-end business.

2 But are the politicians right? They have certainly caught the mood in equality-conscious Europe, where the millions earned by some are stirring up resentment. Politicians in the Netherlands, France and Germany are squaring up to bosses over pay and America is joining in. But while it is easy to find executives who look undeserving it is far harder to show that managers in general are overpaid. At companies owned by private equity, for example, the board and the shareholders are one and the same: their directors are hardly under the thumb of managers. But they still believe managers make enough difference in a company to spend money on hiring the best ones. Indeed, they are willing to pay successful bosses several times more than listed firms do.

3 Managers' pay has grown faster than workers' pay, but the reasons for this are not sinister. Whereas workers' pay depends on the labour market (and has been kept down by the huge numbers of people joining the global economy), managers' bonuses are chiefly tied to returns on capital. Boards introduced stock options and hurdles because investors wanted executives to worry about profits. Profits have recently been good, so pay has been high. Similarly, as the assets inside companies grow, you would expect them to pay more in the market for talent.

4 Governance in Europe is not perfect but European boards have generally done more than American boards to link pay to performance. And pay, though lower, has broadly tracked the increases in America over the past few decades even as monitoring by shareholders has improved. That is not what you would expect if poor governance were behind the bonanza. So politicians should reject laws about pay, which are too sweeping to be useful. Legislation and demagoguery will only drive managers away from listed companies and make pay packages even more complex – and so harder to monitor.

5 At the same time, boards will sometimes fall victim to overmighty bosses. Hence politicians need to insist that shareholders can hold the board to account through a vote on pay – as, indeed, they can in many countries. That will not lead to peace over pay. But how could it do so when shareholders sometimes need to crack the whip? ■