

How Asset Management Companies Fulfill Their Stewardship Responsibilities

Overview

For asset managers to fulfill their stewardship responsibilities, the starting point is to understand the distinct roles that arise from differences in investment objectives between active and passive management, clarify what should be implemented in each approach, and articulate the actions that follow.

Since the introduction of the Stewardship Code (hereinafter “SC”), the importance of “purposeful dialogue” (engagement), a core pillar of stewardship responsibilities, has increased, and the boundary between engagement activities in active and passive management has become blurred. However, fundamentally, active management should take the lead in conducting thorough discussions with investee companies regarding corporate value, while passive management should focus on exercising voting rights to enhance the managerial discipline of investee companies.

In principle, voting rights in passive management should be exercised in accordance with voting guidelines. By distinguishing between criteria directly linked to corporate value and shareholder value (such as ROE, PBR, and TSR) and indirect criteria, if a company fails to meet the minimum target criteria directly linked to corporate value, it can be inferred that management is lacking in competence, and it is therefore appropriate to oppose the appointment of directors who are responsible for those management results. On the other hand, responses to violations of indirect criteria should be determined on a case-by-case basis through dialogue with the investee company.

In Japan, there remains resistance to exercising voting rights on the basis of criteria directly linked to corporate value. However, given the fundamental role of passive management, holding management accountable for results and strengthening managerial discipline would likely contribute to the long-term enhancement of corporate value. It can be argued that the underlying reason for criticism of strict voting based on criteria is that neither corporate management nor Japanese asset management firms have fully embraced the notion of being professional organizations rigorously evaluated based on results and performance. Therefore, such criticism is difficult to accept as reasonable.

For asset management firms engaged in both active and passive management, exercising voting rights separately for each investment strategy—each with different investment objectives—aligns with clients' intentions for each strategy. Overseas, cases in which voting rights are exercised separately according to investment strategy are emerging, and Japanese asset management firms should also consider adopting such an approach.

Although this is not an issue for asset management firms, there is a significant gap between the legal interpretation of directors' fiduciary duties and their actual understanding in practice; bridging this gap is a prerequisite for directors to make a meaningful contribution to enhancing shareholder value. Furthermore, while the criteria for director independence include a provision regarding major shareholders, there has been insufficient discussion in Japan as to why relationships with major shareholders may conflict with those independence standards. To leverage the results of asset managers' voting to enhance corporate value, it is necessary to advance discussions on developing an environment that enables directors to fulfill their roles effectively.

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1. Introduction

In October 2025, I published an article titled “How Institutional Investors Fulfill Their Stewardship Responsibilities,” in which I presented my personal views on how Japanese institutional investors should realistically fulfill their stewardship responsibilities¹. Since writing that paper, I have had the opportunity to discuss this topic with overseas asset management firms and pension funds. Furthermore, the Japan Securities Research Institute established the Asset Management Industry Study Group in January 2026, and we are currently discussing how institutional investors should fulfill their stewardship responsibilities as one of the group’s key themes.

In this article, drawing on discussions with asset management firms and exchanges of views with researchers and others knowledgeable about corporate and institutional investor legislation following the publication of my previous paper, I would like to present my views on how asset management firms can realistically fulfill their stewardship responsibilities. My fundamental belief remains unchanged that active and passive management, each fulfilling their respective stewardship responsibilities in accordance with their distinct objectives, serve as the two wheels of a cart in enhancing the corporate value of Japanese companies. However, in this paper, I will describe the specific contents of the stewardship responsibilities that passive management should fulfill by contrasting them with those of active management. Furthermore, taking into account factors such as the changing composition of Japanese corporate boards following the formulation of the Corporate Governance Code (hereinafter “CGC”), I will go over the key issues regarding the nature of asset management companies’ stewardship responsibilities, including legal perspectives.

2. Understanding the Prerequisites and Changing Environment Surrounding Stewardship Responsibilities

The Stewardship Code (hereinafter “SC”) identifies “purposeful dialogue”

1. The Japanese Stewardship Code (hereinafter “SC”), enacted in February 2014, defines stewardship responsibility as “the responsibility of institutional investors to promote the enhancement of corporate value and sustainable growth of Japanese companies in which they invest, and thereby seek to maximize medium- to long-term investment returns for their clients and beneficiaries, through constructive ‘purposeful dialogue’ (engagement) based on a deep understanding of the investee companies and their business environments.” Unless otherwise specified in this paper, this definition from the SC will be used as the definition of stewardship responsibility.

(engagement) as the cornerstone of stewardship responsibilities. To correctly understand the nature and significance of engagement, it is necessary to recognize the differences between the two investment strategies of active and passive management, as well as the changing environment surrounding equity investments and Japanese companies.

(1) Understanding the Differences Between the Two Investment Strategies

The objective of active management is “to achieve excess returns that outperform a specified benchmark.” The goal is to generate capital gains by increasing the stock price through enhancing the investee company’s corporate value, thereby achieving high excess returns. Estimating the future corporate value of the investee company as accurately as possible and purchasing the stock at a price lower than the estimated corporate value are crucial for achieving high excess returns. In some cases, active managers may engage in discussions with the investee company’s management regarding corporate value enhancement, which may contribute to improvements in corporate value. This is where the value of engagement in active management lies.

In contrast, the objective of passive management is to “achieve the same returns as a specified benchmark.” Since the constituent stocks and their weightings of the specified benchmark are publicly disclosed, the same returns can be achieved by including the same constituent stocks in the same weightings. This is the basic strategy of passive management.

Since the constituent stocks and weightings of the benchmark are determined by the company that creates the benchmark, the added value provided by passive managers lies in deciding what portfolio to construct to achieve the same returns as the benchmark, and how to execute trades to achieve those returns (such as reducing transaction costs through careful timing).

Unlike active management, the investment objectives of passive management provide little incentive to engage with investee companies. As will be discussed later, the situation differs somewhat for large asset management firms, but passive managers are generally not expected to undertake engagement or the associated research activities. Consequently, management fees are kept low. This is fundamentally the same in every country, not just Japan. It is important to remember that asset management firms must also adapt their approaches in light of these differences in investment objectives.

(2) Understanding the Changing Environment

However, following the introduction of the SC, engagement came to be expected even for passive management. As a result, the environment surrounding passive management changed, blurring the line between the two investment strategies and making the situation more complex. While asset managers would prefer not to incur high costs for passive management, following the adoption of the SC, asset owners such as pension funds began requesting explanations of engagement activities. Furthermore, since “engagement activities” were added as a selection criterion for passive asset managers, it has become difficult to ignore such activities. Consequently, engagement has now become unavoidable for both active and passive management.

Furthermore, with the establishment of the Asset Owner Principles (hereinafter “AOP”), asset owners were also required to implement stewardship activities in accordance with Principle 5. Consequently, when assets are entrusted to an asset management firm, it is necessary to closely monitor their engagement activities. While neither asset managers nor asset owners would ideally like to spend substantial time on this, the combined demands of the SC and AOP have made inaction socially unacceptable, leaving them struggling to find an appropriate response.

Changes in investee companies are also influencing the way voting rights are exercised. Specifically, following the establishment of the CGC, changes have appeared in corporate governance structures, and the proportion of independent directors has increased. Given that boards of directors, which were previously mostly “managing boards” where executive and supervisory functions were integrated, are increasingly being replaced by “monitoring boards” that separate executive and supervisory functions, particularly among large companies, there are calls to reexamine how voting guidelines are established to reflect changes in the roles and responsibilities of directors, as well as who should be held accountable for management. As will be discussed in detail later, the underlying issue is whether the exercise of voting rights should be reconsidered in light of changes in corporate governance structures.

3. Active Engagement and Beta Engagement

Based on the differences in investment strategies and environmental changes discussed in the previous chapter, I would first like to explain the nature of these two distinct forms of engagement. Figure 1 provides an overview of engagement,

highlighting the differences between these two investment strategies. In Figure 1, engagement in active management is referred to as “alpha engagement,” and engagement in passive management as “beta engagement.” There are various differences between these two forms of engagement, which are briefly explained below.

Figure 1. Alpha Engagement and Beta Engagement

	Alpha Engagement	Beta Engagement
Purpose of Engagement	To enhance the corporate value and stock price of investee companies	Improving overall stock market returns and reducing risk
Target Companies for Engagement	Portfolio companies (no more than 10 at any given time)	Priority given to companies with large market capitalization
Characteristics of Engagement	Individual and specific	Comprehensive
Engagement topics	Management themes directly linked to “corporate (and shareholder) value,” such as M&A strategy, business strategy, and capital allocation policy	Content primarily aimed at improving ESG (activities designed to enhance overall market management quality by mitigating risk factors through improvements in internal controls, such as increasing the proportion of independent directors)
Engagement Methods	Direct dialogue with management, shareholder proposals	Exercising voting rights, dialogue with management
Investment horizon	1 to 7 years	Holding period for index constituents (typically ultra-long term)
Method of exercising voting rights	Handled on a case-by-case basis depending on the content of the proposal	① Strict exercise criteria are established and applied mechanically (representative directors are held accountable for results) ② Exercise based on the board model

(Source) Author

(1) Differences in Engagement Objectives Arising from Differing Investment Objectives

While active management encompasses a variety of investment strategies, the discussion here will proceed under the assumption of a long-term strategy focused on corporate value. The objective of engagement in active management is clear: enhancing the investee company's corporate value leads to dividend payments, rising stock prices, and other benefits, thereby generating high investment returns. The purpose of engagement boils down to improving the corporate or shareholder value of the investee company. It is crucial that engagement leads to management decisions that enhance shareholder value.

On the other hand, in passive management, there is generally no incentive to engage with investee companies when viewed in light of its original purpose.

However, large asset managers and asset owners hold significant stakes in investee companies; unlike shareholders with small stakes, they have a voice in the investee company and, in some cases, can exert influence on corporate management through engagement. Although the objective is to achieve returns equal to the benchmark, the ultimate goal of asset owners such as pension funds—who are the clients of asset management firms—is to achieve high returns. From the client’s perspective, it is desirable for the benchmark’s absolute return to be high.

Therefore, there is an incentive to improve returns and reduce risk across the broader stock market through engagement that exerts such influence. Proposing improvements to the governance structures of investee companies can be seen as a responsibility of large shareholders, and this mindset likely underpins the so-called “universal owner” concept. However, for asset managers, such activities must be conducted strictly within the scope of the management fees received for passive management. Asset management is, after all, a business, and there are naturally cost constraints on such engagement.

(2) Engagement Targets

The number of companies in an active investment portfolio varies widely, but in investment strategies focused on enhancing corporate value over the long term, the number is generally quite small. It is typically around 30 stocks at most, and even among these, attempts to enhance corporate value through engagement require substantial research time and cost. Therefore, the number of companies engaged with simultaneously usually remains in the single digits.

Conversely, passive management is subject to cost constraints. Therefore, if the goal is to improve overall market returns or reduce risk, it is advisable to focus on large-cap companies, where engagement is expected to have the greatest impact. Even at major passive management firms, the number of staff available for engagement is limited, so the standard practice is to prioritize engagement with the largest companies by market capitalization.

(3) Engagement Characteristics and Content

In active management, engagement themes are focused on issues that directly affect the corporate value of portfolio companies. A key characteristic of this approach is that themes vary significantly depending on the specific circumstances of each portfolio company. These themes are extremely diverse, ranging from acquisition proposals for specific companies and divestitures of business units to

capital policy matters that contribute to balance sheet efficiency. Since engagement in active management must directly influence corporate value and other factors, it is only natural that its content becomes highly specific and tailored to each individual case.

In contrast, in passive management, such specific, case-by-case matters rarely become engagement themes. Instead, engagement often centers on common themes that represent a lowest common denominator—improvements that can be implemented across a wide range of portfolio companies, such as governance reforms aimed at management that prioritize the interests of minority shareholders by increasing the proportion of independent directors. ESG (Environmental, Social, and Governance) themes are a prime example of this.

(4) Engagement Methods

Engagement in active management primarily consists of one-on-one dialogue with management (including executive officers, such as the CEO, and independent directors). During these informal conversations, both parties express their views and deepen the discussion. When opinions differ, shareholders may submit proposals at the annual general meeting or disclose them to seek support from other shareholders. However, the most important activity remains one-on-one, informal, direct dialogue.

On the other hand, in passive management, cost constraints make it impossible to devote significant time to one-on-one informal dialogue with many investee companies. Consequently, the primary means of engagement inevitably becomes the exercise of voting rights on proposals at the general meeting of shareholders.

4. The Approach to Voting in Passive Management

The purpose of engagement in active management is to enhance the corporate or shareholder value of investee companies. Thus, it is crucial to encourage management to make decisions that increase shareholder value through engagement. Consequently, the exercise of voting rights in active management focuses on whether management decisions align with shareholders' intentions. Decisions regarding the exercise of voting rights—such as the selection of management—vary depending on the circumstances at the time, making it difficult to strictly adhere to predetermined voting guidelines. The following section focuses on passive management and explains the specifics of voting practices.

(1) The Difference Between Voting Criteria Directly Linked to Shareholder Value and Indirect Criteria

The investment objective of passive management is to deliver returns that match the benchmark. There is little incentive to engage with investee companies on a one-on-one basis. It is both reasonable and efficient to exercise voting rights at minimal cost in an effort to enhance the corporate value of investee companies and reduce risks. In passive management, it is standard practice to exercise voting rights in accordance with predetermined criteria. While this is not limited to passive management, there have been reports of U.S. asset managers using artificial intelligence (hereinafter “AI”) for voting, and exercising voting rights efficiently clearly represents a major management challenge for them.

While the content of voting criteria is diverse, it is easier to understand if we categorize them into criteria directly linked to corporate or shareholder value, and those that are indirect. Criteria directly linked to corporate value include ROE, PBR, and TSR (Total Shareholder Return)—indicators generally recognized as closely tied to long-term stock prices and corporate value. Asset managers set minimum target levels for these metrics for the companies in which they invest. The standard practice is to oppose the election of directors if these standards are not met.

Nevertheless, indirect criteria span a wide range of areas, such as the proportion of independent and female directors, greenhouse gas emissions standards, and the ratio of shares held for policy purposes; these are believed to positively impact corporate management when their metrics improve. Although target levels are set for these indicators, it is unclear whether they are directly related to corporate value or long-term stock prices. Accordingly, it is standard practice not to oppose the appointment of directors even if these targets are not met. These indicators are presented strictly as “aspirational targets,” and their nature is such that improvements in these metrics are sought through engagement.

(2) The Need for Strict Exercise of Voting Rights Based on Criteria Directly Linked to Shareholder Value

In the case of passive management, if management performance fails to meet the voting criteria directly linked to corporate value, one should oppose the appointment of directors, particularly those who have previously served as representative directors. The numerical thresholds in voting criteria are intended to serve as minimum target levels. Directors have a responsibility to enhance corporate value, and if they fail to deliver management results over a long period—such as five

years—regardless of the reason, it is considered crucial to strengthen managerial discipline by determining that they lack managerial capability and therefore should not be appointed. While management’s compliance is subject to process accountability, its business performance should be subject to results-based accountability.

The view that strict voting based on criteria directly linked to corporate and shareholder value enhances managerial discipline and ultimately contributes to long-term corporate value growth does not seem to be widely accepted in Japan and appears to be subject to various criticisms. Why has this perspective not become widespread, and why does it continue to face criticism, even though most clients do not expect passive managers to engage with investee companies and do not pay fees commensurate with such activities? It is likely that the environmental changes discussed in Chapter 2, as well as the rationale advanced by the investee companies themselves, have contributed to this situation.

(3) Reasons for Criticism of Strict Voting Based on Voting Guidelines

There are likely multiple reasons for the widespread criticism of strict voting based on metrics directly linked to corporate and shareholder value. First, asset management firms themselves are reluctant to engage in strict voting in line with voting guidelines. “If we make decisions mechanically according to the guidelines, investee companies will conclude that engaging with us is pointless and become reluctant to engage in dialogue. It is necessary to exercise voting rights while taking individual circumstances into account in order to maintain smooth dialogue with investee companies.” This appears to be the general view among voting rights officers at Japanese asset management firms.

While this thinking may sound reasonable at first glance, it appears to confuse the roles of active and passive management. Engaging in constructive discussions with investee companies regarding corporate value is the role of active managers; it should not be expected of passive management.

As mentioned earlier, the engagement that passive management can undertake is constrained by cost, and the themes tend to be reduced to the lowest common denominator, such as ESG. Since passive management, which holds relatively larger assets under management compared to active management, is not expected to engage in in-depth discussions regarding corporate value enhancement, it is believed that exercising voting rights strictly according to established criteria and holding directors accountable for results through the collective voting power they command

contributes to improving long-term managerial discipline. The argument that prioritizing relationships with investee companies is essential and requires individualized approaches sounds to me like nothing more than an excuse.

It is likely that many investee companies also hold the mistaken preconception that “if we engage in dialogue with shareholders and explain our circumstances, they will understand; if they fail to understand, it is a sign of their lack of understanding toward us.” For example, some Japanese corporate executives voice complaints such as, “There are rational reasons why our performance has not improved, and we have explained this to institutional investors. Nevertheless, their opposition is proof that they are not trying to understand the company, and the dialogue is not constructive.” This perspective is rooted in the belief that “if we explain, they will understand,” and the reasoning is that any lack of understanding stems from the investment manager’s negligence.

Since investee companies hold such views, it seems many Japanese asset managers also share opinions such as, “Although the company does not currently meet the criteria, our engagement indicates prospects for future improvement, so we will vote in favor of the company’s proposal this time,” or “If we exercise voting rights uniformly based on numerical criteria, the company will perceive us as unwilling to listen to their explanations, making future contact difficult. Therefore, it is safer to vote in favor.”

Overseas asset managers can often be heard saying that “Japanese asset managers may be too lenient toward the companies in which they invest.” It is thought that the background to such opinions lies in a confusion of the roles of active and passive management, leading to the misconception that engagement is necessary even in passive management. However, the fundamental cause may be that neither corporate management nor Japanese asset management firms have fully embraced the role of being a professional organization that is rigorously evaluated based on results and performance². It is thought that a cultural background that values relationships—for better or worse—is fostering this highly relationship-oriented dynamic between the two parties.

(4) Approaches to Voting Based on Board Composition

2. For an example of an asset management firm operating as a professional firm, please refer to Sadayuki Horie’s article “An Asset Management Firm Operating as a Professional Firm,” *Japan Securities Research Institute*, June 2026.

I have also heard from representatives of major passive asset management firms that they have adjusted their voting practices in response to changes in the governance structures of Japanese companies. Since the introduction of the CGC, the proportion of outside directors has increased significantly; more than 80% of companies on the Tokyo Prime Market now meet the CGC's recommendation of "one-third or more" outside directors, and the number of listed companies where outside directors constitute a majority has exceeded 20%.

Given the current shift from a "managing board," where executive and supervisory functions are integrated, to a "monitoring board," where these functions are separated, a major passive asset management firm holds the view that oversight of the executive team should be entrusted to the board of directors. In other words, the argument is that the exercise of voting rights should be focused on proposals to appoint directors who fulfill supervisory functions. Exercising voting rights based on various management metrics is an approach premised on the traditional "managing board" model, in which executive and supervisory functions are integrated, and therefore may no longer represent an appropriate approach to exercising voting rights.

Certainly, this approach would be appropriate in the U.S., where nearly all board members other than the CEO are outside directors, and where outside directors make up the majority of various committees, such as nomination committees. In fact, the focus of shareholder meeting proposals in the U.S. is almost exclusively on the election of directors.

However, looking at the reality of management in Japanese companies, the current situation is that, of the three organizational structures permitted under the Companies Act, the proportion of companies with nomination committees and similar bodies is still less than 3%, and they have not yet reached a level that could be called a U.S.-style monitoring board. Furthermore, when the CEO effectively holds the power to appoint outside directors, the outside directors often act with the CEO in mind rather than in the interests of minority shareholders. Under such circumstances, is it not premature to exercise voting rights in a manner modeled after a U.S.-style monitoring board?³.

3. In the U.S., "path-through voting," in which a portion of the authority to exercise voting rights is delegated to asset owners, is also practiced. Under this method, asset managers exercise voting rights in accordance with specific voting guidelines provided by the asset owners. It is reported that among major passive asset managers, asset owners representing approximately 10% of assets under management have established such voting guidelines.

5. Remaining Issues

Finally, I would like to highlight several issues that warrant discussion as asset management companies fulfill their stewardship responsibilities.

(1) Approach to Voting by Asset Management Firms Engaged in Both Active and Passive Management

So-called comprehensive asset management firms often have various investment strategy teams within a single firm and engage in both active and passive management. How should such firms exercise voting rights for their portfolio companies?

Typically, there is a department dedicated to proxy voting, and it is standard practice for that department to exercise voting rights uniformly on behalf of all the investment firm's holdings in investee companies. For Japanese companies with a March fiscal year-end, shareholder meetings are concentrated within a limited period in June. Consequently, staff in the dedicated department must exercise voting rights for thousands of portfolio companies under extremely tight time constraints. For proposals where the voting decision is difficult, the standard approach is to consult with analysts familiar with the company's circumstances or portfolio managers (hereafter "PMs") engaged in active management and to exercise voting rights while taking their opinions into account. Even among large overseas asset management firms with a variety of investment strategies, it is common for the firm to exercise voting rights in a unified manner.

However, changes have recently begun to emerge in the practice of asset management firms uniformly exercising voting rights. According to a major U.S. asset management firm that I interviewed in March 2026, the firm changed its policy several years ago such that while a department specializing in corporate governance provides advice to PMs on voting, the actual exercise of voting rights is now the responsibility of the PMs of each individual fund. Previously, the company had exercised voting rights uniformly based on a single set of standards. However, the firm made this change because it believed that tailoring voting criteria to each fund's specific investment objectives would better serve its clients' interests.

In principle, the investment objectives of each investment strategy differ, and voting should be conducted in accordance with those objectives. While opinions on proposals such as the election of directors are likely to be consistent regardless of whether the investment strategy is active or passive, differences of opinion may arise

on proposals involving decisions on mergers and acquisitions⁴. Therefore, it is generally considered desirable to exercise voting rights separately for each investment strategy. Should Japan not also consider adopting this approach in the future?

(2) The Need to Bridge the Perception Gap Regarding Directors' Fiduciary Duties

I have encountered views from overseas asset management firms suggesting that the interpretation that Japanese directors owe fiduciary duties solely to the “company,” rather than to the “company and shareholders,” may be a major factor hindering the effective functioning of outside directors. While this is not an issue that asset management firms can resolve, I would like to highlight it as a challenge related to the exercise of voting rights.

According to legal scholars familiar with Japanese corporate law, “Under Japanese law, directors are deemed to owe duties of care and loyalty to the corporation itself, and there are no statutory provisions stipulating that directors owe duties to shareholders. However, a corporation is a legal entity (for-profit entity) whose purpose is to generate profits through external economic activities and distribute those profits to its members, the shareholders. Consequently, the prevailing view in legal scholarship is that the directors’ duties of care and loyalty are, in principle, obligations to maximize the benefits accruing to shareholders—that is, to pursue shareholder value maximization⁵.” Thus, even under the current Companies Act, the prevailing legal view appears to be that the board of directors bears fiduciary responsibilities toward “the company and its shareholders.”

However, many directors and asset management firms do not appear to think this way in practice. Rather, they may be performing their supervisory duties or evaluating management from a company-oriented perspective. Overseas asset management firms that invest in Japanese companies and have achieved excellent investment results are raising the question of whether this significant gap between legal interpretation and directors’ perceptions is the fundamental reason for the lack of substantial progress in Japanese corporate governance. Shouldn’t stakeholders—including institutional investors, Japanese companies, and regulatory authorities—make efforts to narrow the gap between legal interpretation and reality?

4. For cases where opinions may differ, please refer to Sadayuki Horie’s article “How Institutional Investors Fulfill Their Stewardship Responsibilities,” *Japan Securities Research Institute*, October 17, 2025.

5. Tanaka, Wataru, *Analytical Methods for Corporate Law*, University of Tokyo Press, 2024 (p. 184).

(3) The Need to Resolve the Perception Gap Regarding Director Independence

Another issue pointed out by overseas asset management firms as a governance challenge for Japanese companies is the question of standards for director independence. While this is not an issue specific to asset management firms themselves, it affects the exercise of voting rights and is worth noting.

It has been noted that in Japan, the independence criteria may be interpreted to encompass two distinct types of independence: “executive independence” and “major shareholder independence.” Strictly speaking, independence should be interpreted as independence from management.” However, given the prevalence of controlling shareholders in Japan—such as parent-subsidiary dual listings, founding families, and main banks—there is a view that the interpretation has been broadened to include not only controlling shareholders but also shareholders holding 10% or less, on the grounds that “they may exert influence through the exercise of voting rights, etc., that could lead to an infringement of minority shareholders' rights.”

In countries influenced by English law, such as the UK, Hong Kong, and Singapore, shareholders holding 3% to 10% of shares are indeed considered to “exert influence through the exercise of voting rights,” and directors are required to be independent from them. Furthermore, looking at the voting criteria of asset management firms regarding Japanese companies, many set thresholds of 10% or 5% for shareholders who could potentially influence a company through the exercise of voting rights (and thus pose a potential conflict of interest). This approach is similar to that of English law, which likely views major shareholders as a problem because they could create conflicts of interest by exercising voting rights. On the other hand, U.S. exchanges such as the NYSE and NASDAQ do not consider the size of a shareholder’s stake itself to affect independence. This issue actually traces back to the principle of “one share, one vote” in joint-stock companies, which is a cornerstone of governance theory.

If being a major shareholder were inherently problematic, one might consider restricting their ability to exercise voting rights beyond a certain threshold. However, this is not the case, and major shareholders hold voting rights proportional to their shareholding. The rationale behind this “one share, one vote” principle likely stems from the idea that major shareholders have a strong incentive to enhance corporate value, making it desirable for them to have a greater say. If a director from a major shareholder background has no economic ties to the investee company, such a director could reasonably be considered desirable because their incentive to enhance corporate value is strongly aligned with the common interests of shareholders.

In other words, overseas asset management firms find it disconcerting that even specific shareholders, such as major shareholders, are not regarded as “independent directors”—despite the fact that, as “pure shareholders” with no ties to management, their interests are inherently aligned with those of the company. The issue of independence from major shareholders requires a clear explanation of why having a director with a major-shareholder background is problematic. Ultimately, the core issue is not the fact of being a director with a major-shareholder background itself, but rather whether the director has economic relationships (such as business dealings) with parties other than shareholders.

It is not difficult to imagine shareholders worrying that activist investors with high ownership stakes—who focus solely on short-term stock price increases and make proposals that risk damaging corporate value in the long term—might unilaterally push their views. However, this is an issue that should be considered separately from the debate on independence.

It is important to clarify the above discussion because if directors harbor the mistaken belief that they must make decisions independent of “shareholders” as well, this can lead to the board of directors failing to fulfill the role it is fundamentally intended to play. In fact, based on the practical experience of asset managers who have engaged in discussions with portfolio company directors, it appears that outside directors who are completely independent of shareholders lack the incentive to actively confront management and do not perform as effectively as expected. This point can also be viewed as a limitation of Board 2.0 and serves as a premise for the discussion of Board 3.0⁶.

While it is not yet common in Japan to discuss the issues outlined here, they are extremely important when considering how exercising voting rights can enhance corporate value, and stakeholders should take a keen interest in them.

In writing this paper, the author has referenced and quoted remarks and opinions from presenters and committee members of the Asset Management Industry Study Group. Please note that the opinions and observations expressed in this paper are solely those of the author and do not represent the official stance of the Japan Securities Research Institute. Furthermore, any errors or omissions

6. “Board 2.0” is a governance model that separates oversight from execution, with the board of directors specializing in oversight functions. On the other hand, “Board 3.0” is a governance model in which investment experts, such as long-term investors, and other specialists are appointed to the board, and they are expected to perform not only oversight functions but also strategic planning, execution, and evaluation. Discussions on this model began among U.S. scholars and others around 2020.

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