



**Warren Lichtenstein**

## Investors Change Their Fight Path in Japan

By ALISON TUDOR  
July 18, 2008; Page C1

For years, activist foreign investors have had little success in bringing about change in Japanese companies by openly confronting management. They are taking a new tack: Working behind the scenes.

The new strategy is more likely to sway management in a culture that tries to avoid public conflicts. "Foreign activists have learned from their mistakes," said Tomomi Yano, head of Japan's biggest private-sector pension fund, the Pension Fund Association, and the first major Japanese institutional investor to speak out about shareholder rights in Japan. "They realized they can get much more done if they go underneath the water."

One investor to switch gears is Steel Partners, which has been one of the most active advocates of change in Japan. The New York investment firm has named Mark O'Friel, a veteran Wall Street banker and Japan expert, as the head of its Japanese business.

Last year, Steel Partners attracted attention throughout Japan with shareholder proposals at eight of its portfolio companies, seeking dividend increases and opposing takeover defenses. The proposals, seen as hostile acts, were shot down by other shareholders.

The firm, run by Warren Lichtenstein, hasn't made any new takeover attempts in over a year. For this year's round of shareholder meetings, mostly in June, it didn't introduce specific proposals. It kept a lower profile in the press and sought to exert pressure on company managers behind closed doors.

If management fails to respond to the pressure, the low-key strategy appears more likely to win support of other shareholders. In one of the few outright victories for activist shareholders in this year's round of meetings, U.S. investment-management firm Dodge & Cox Funds joined with Steel Partners and blocked the re-election of seven board members at **Aderans Holdings Co.** Last year, Dodge & Cox supported the wig maker when it adopted a takeover defense.

There will be a special board meeting on Aug. 9 to vote on a new lineup, including two outside directors recommended by Steel Partners. Working to replace directors who activists believe aren't working to boost profitability is considered a more acceptable way of winning influence in Japan than an outright bid for the firm or increasing a stake.

Steel Partners said in a letter to shareholders that Mr. O'Friel's expertise on Japan will "enhance our efforts to create a constructive dialogue with our portfolio companies and other constituents in the Japanese market." A former head of

Morgan Stanley's equity division in Japan, Mr. O'Friel has worked in the country for 17 years.

In the past, Japanese management was generally left to make its own decisions, and domestic shareholders were traditionally passive. Under a system of cross-shareholding, many big shareholders had a business relationship with the company - for example, a bank with a stake in a client or a manufacturer owning part of a supplier.

As Japan's economy declined from the early 1990s, these shareholders sold much of their stock. As share prices tumbled, foreign investors bought, gradually increasing their holdings to 28% of Japanese stocks as of March 31. Activist funds have about \$10 billion invested in Japan, according to Singapore data provider EurekaHedge.

Many of the activists hope to persuade management to increase dividends and sell off unprofitable divisions. Their proposals at shareholder meetings were defeated this year and last year. Just six companies were targeted with dividend proposals this year, compared with 16 in 2007. Meanwhile, all of management's 218 proposals to adopt takeover defenses were approved in both years, according to RiskMetrics Group, a New York corporate-governance consultancy.

Foreign investors often cite management's reluctance to distribute profits to shareholders as a reason they are reluctant to invest more in Japan. Stronger stock-market performance is important for Japan, where the population is aging and many people rely on pensions. The Nikkei Stock Average of 225 companies is down 16% this year and has consistently underperformed other markets around the world for the past decade.

No one expects a sea change in Japanese corporate governance anytime soon. But there are tentative signs companies are becoming more responsive to investors' demands, especially if it means avoiding public embarrassment at a shareholder meeting. Dividend payouts have been rising gradually, even if they remain low compared with international standards.

Some funds are willing to be flexible. Brandes Investment Partners LP, a San Diego activist fund, submitted a proposal for an increased dividend to Ono Pharmaceutical Co. ahead of the company's June 27 shareholder meeting. But the fund withdrew the proposal after the drug company quickly raised its dividend and started a share-buyback program.

Effissimo Capital Management Pte. Ltd., a Singapore hedge fund, proposed removal of the president at **Gakken** Co., a publishing company, unless the company improved its earnings performance. The fund backed down when Gakken announced plans to shed unprofitable businesses.

"The threat of being removed and humiliated may be a more powerful a weapon for an activist than orchestrating a direct confrontation," said Patrick Mohr, a director in equity research at investment bank Nikko Citigroup Ltd.