

Investment Stewardship

Vote Bulletin: Dentsu Group, Inc.

Company	Dentsu Group, Inc. (Tokyo Stock Exchange: 4324)
Market and Sector	Japan, Communication Services
Meeting Date	30 March 2023
Key Resolutions ¹	Item 2.8: Elect Director Keiichi Sagawa
Key Topics	Corporate governance
Board Recommendation	The board recommended shareholders vote FOR Item 2.8
BlackRock Vote	BlackRock voted AGAINST Item 2.8

Overview

Dentsu Group Inc. (Dentsu) is principally engaged in communication-related services with a focus on advertising. The company is headquartered in Japan.

BlackRock Investment Stewardship (BIS) engages with companies to better understand how company leadership identifies and manages the material risks and opportunities in their business model that, in our assessment, can impact their ability to deliver durable financial performance for long-term investors like BlackRock’s clients. BIS also engages to provide a long-term investor perspective on corporate governance practices.

Our engagements with Dentsu’s board and management over the past several years have covered a range of corporate governance topics including overall board composition and effectiveness, and board oversight of risk management and compliance with policies.

In early February 2023, a former Dentsu employee faced allegations of bid rigging for contracts in connection with the 2020 Japan Olympics. This former employee was arrested on February 8, 2023, and the company, along with several other companies and individuals, was indicted on February 28² due to provisions of Japanese anti-monopoly law.³

¹ Dentsu Group, Inc. “Notice of Convocation of the 174th Ordinary General Meeting of Shareholders.” 2023.

² A criminal complaint was filed against the ex-employee by the Japan Fair Trade Commission, and he was indicted by the Tokyo District Public Prosecutors Office. See, Dentsu Group Inc, “[Notice Regarding the Indictment of the Company and an Employee of Its Domestic Subsidiary](#),” 28 February 2023.

³ According to Article 95 of the [Japan Fair Trade Commission Antimonopoly Act \(AMA\)](#), if an employee of a corporation has committed a violation, not only the employee, but the corporation itself may also be subject to the prescribed fines under the Dual Criminal Liability Provision.

On the same day of the indictment, Dentsu's president Hiroshi Igarashi publicly stated that "[t]he Company takes its responsibility for this matter seriously,"⁴ and subsequently established a special committee⁵ of the board, composed of three independent non-executive directors, to oversee an external investigation by three senior legal professionals (including a former prosecutor and a former supreme court judge) into the company's practices in relation to the incident. In addition, the company enhanced their governance structure by establishing separate Nominating, Audit, and Compensation committees.⁶ Finally, several senior executives of Dentsu and a subsidiary were required to forego a meaningful portion of their FY2023 remuneration as a result of the incident.⁷

Rationale for BlackRock's vote

Item 2.8: Election of Keiichi Sagawa (AGAINST)

BIS did not support the election of Keiichi Sagawa as a non-executive director of the board due to concerns that cross holdings and certain business relationships between the company and his previous employer undermine his independence. While we recognize Mr. Sagawa's capabilities and experience, recent allegations of corruption against a former employee highlight the importance of robust board oversight of management and demonstrating that directors are, and are seen to be, fully independent of management.

As discussed in our commentary, [our approach to engagement on board quality and effectiveness](#), we view director independence as an important component of effective board composition. In our engagements with companies, we aim to understand how the board assesses directors' ability to act independently in the interests of all shareholders. Generally, this would include directors being free of close affiliations with management, other directors or commercial entities that may impair their independent judgement, significant share ownership, and length of service on a board (including the board's view of the independence of any long-tenured members). Our regional voting guidelines include criteria that we use as a benchmark in each market to assess whether a director is independent.⁸

Mr. Sagawa is the former CFO of Recruit Holdings, a major human resources company in Japan. BIS had concerns about the cross-share ownership⁹ and certain business relationships between Dentsu and Recruit. In our assessment, these factors could raise concerns regarding Mr. Sagawa's independence sufficiently to warrant withholding support, particularly at a time when the company is in the midst of an investigation into their risk management and ethical business conduct practices following recent corruption allegations against a former employee.¹⁰

⁴ Dentsu Group, Inc. "[Response by the Group, Including the Establishment of an Investigation and Review Committee of Outside Experts](#)" 28 February 2023

⁵ Dentsu Group, Inc. "[Establishment of a Special Committee of Independent Outside Directors](#)." 14 February 2023.

⁶ Dentsu Group, Inc. "[Dentsu Group Inc. announces further improvement in Corporate governance with the transition to a Company with Three Committees \(Nomination, Audit & Compensation\)](#)." 14 February 2023.

⁷ Dentsu Group, Inc. "[Response by the Group, Including the Establishment of an Investigation and Review Committee of Outside Experts](#)" 28 February 2023

⁸ Our market-specific voting guidelines for the APAC region are publicly available under the "[Stewardship policies](#)" section on the BIS website. As explained in our [proxy voting guidelines for Japan securities](#), independent outside directors are those that have no connections or relationships with the company or its executives / officers and hence not conflicted in representing the interests of general shareholders.

⁹ Regarding the cross-shareholding between the two companies, Recruit holds 1.86% of Dentsu's shares, and Dentsu holds approximately 0.5% of Recruit's shares.

¹⁰ At Dentsu's 2023 AGM, 23% of shareholders voted against Mr. Sagawa's election to the board. Other directors receiving high levels of shareholder votes against included two executive directors – Hiroshi Igarashi (35%) and Arinobu Soga (26%), as well as an independent non-executive director – Mihoko Sogabe (19%). Full results available: Dentsu Group, Inc. "[Notice of Voting Results at the 174th Ordinary General Meeting of Shareholders](#)." 3 April 2023.

Rationale for supporting other directors at the 2023 AGM

Poor corporate governance practices, including in relation to ethical business conduct, expose companies to legal, regulatory, operational, and reputational risks, which may impair their ability to deliver strong, long-term financial returns.

BIS engaged with one of the members of the special board committee and is encouraged by the swift action taken by the board and the commitment to act on the findings of the external investigation. Given that the events are recent, and the investigation has not concluded, BIS did not consider it appropriate to take voting action against incumbent directors. BIS will monitor developments and engage as appropriate to understand the steps that have been taken by the company to minimize the risk of future incidents of this nature and, therefore, protect long-term shareholders' financial interests.

About BlackRock Investment Stewardship (BIS)

Our clients depend on BlackRock to help them achieve their investment goals. These clients include public and private pension plans, governments, insurance companies, endowments, universities, charities and ultimately individual investors, among others. Consistent with BlackRock's fiduciary duty as an asset manager, BIS' purpose is to support companies which we invest for our clients in their efforts to create long term durable financial performance.

BIS serves as an important link between our clients and the companies they invest in – and the trust our clients place in us gives us a great responsibility to advocate on their behalf. That is why we are interested in hearing from companies about their strategies for navigating the challenges and capturing the opportunities they face. As we are long-term investors on behalf of our clients, the business and governance decisions that companies make will have a direct impact on our clients' investment outcomes and financial well-being.

We look to boards and executive management to demonstrate that they are taking into consideration the interests of long-term shareholders and other stakeholders. Our, often multi-year, dialogue with the leaders of these companies provides us the opportunity to improve our understanding of, and provide feedback on, the governance and sustainability-related risks and opportunities that are material to their businesses and thus to their ability to generate long-term returns for our clients. For those clients who have given us authority, we vote proxies in their best long-term financial interests, in line with our public [voting guidelines](#) and informed by our analysis of company disclosures and, where relevant, our engagements.¹¹

To support investors' assessment, it is helpful when companies provide timely, accurate, and comprehensive disclosure on all material governance and business matters, including sustainability-related issues. This transparency allows shareholders to better understand and assess how relevant risks and opportunities are being effectively identified and managed. Where company reporting and disclosure is inadequate or we believe the approach taken may be inconsistent with durable, long-term value creation, we will engage with a company and/or vote in a manner that signals our concerns.

We are committed to transparency in the stewardship work we do on behalf of clients. We inform clients about our engagement and voting policies and activities through direct communication and through disclosure on our [website](#). For shareholder meetings where a vote might be of particular interest to clients, we may publish a vote bulletin after the meeting, disclosing and explaining how we voted on key proposals.

Want to know more? blackrock.com/stewardship

contactstewardship@blackrock.com

This Vote Bulletin is provided for information and educational purposes only and does not constitute legal advice, a recommendation or an offer or solicitation to buy or sell the securities of any company. The information here is as of May 11, 2023. BlackRock has no obligation to provide any updates. Investing involves risk, including the loss of principal.

Prepared by BlackRock, Inc.

©2023 BlackRock, Inc. All rights reserved. BLACKROCK is a trademark of BlackRock, Inc., or its subsidiaries in the United States and elsewhere. All other trademarks are those of their respective owners.

¹¹ As detailed in our [Global Principles](#), proxy voting involves logistical issues which can affect BlackRock's ability to vote such proxies, as well as the desirability of voting such proxies. As a consequence, BlackRock votes proxies on a "best-efforts" basis.