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Financial

# Now is the time to appoint female corporate directors
## Urgent proposals from overseas

By Momoe Ban in New York
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Japan's slowness to adopt one of the biggest themes of corporate governance, the appointment of women directors, stands out. Institutional investors strongly urge increasing the percentage of women directors, but as has historically been the case, pressure hasn't been enough to make an immediate change at Japanese companies. What to change, and how?
As corporate managements' concerns grow deeper, a growing number of private organizations overseas have emerged to offer specific advice to companies or to create networks of female candidates. We dug into the passionate movement to deliver recommendations to Japanese companies.

***Introducing Japanese women who are active overseas***

"I wanted to convey the fact that Japanese companies are so far behind the rest of the world when it comes to corporate governance," says Tracy Gopal, CEO of Third Arrow Strategies, an American consulting firm that gives guidance to Japanese companies on how to improve corporate governance. Gopal is fascinated by Japanese culture and language and has experience living in the country, and with her understanding of Japanese employment practices she is looking into whether she can do something to help Japanese companies improve their gender diversity. Her company's name is derived from the "three arrow" strategy of Abenomics, advocated by former Prime Minister Shinzo Abe. The third arrow refers to a focus on the power of, and growth strategy for, human resources.

Gopal leads the Japan Board Diversity Network, an organization aimed at increasing the percentage of female directors at Japanese companies. The organization was founded in April of this year and is putting together a network of Japanese women who are active internationally, with the goal of fostering new leaders and introducing candidates for leadership roles at Japanese companies. The organization noticed that many talented women who reacted to the lack of opportunities for promotion within Japanese companies by pursuing an MBA degree abroad remain active overseas. By organizing these women and introducing them to Japanese companies, they hope to bring a global perspective and a familiarity with overseas corporate success stories that's lacking among male Japanese employees.

"Japanese companies need to go global to grow. Bringing women with international experience into leadership roles is very important," says Gopal. She points out that, for Japanese companies, appointing female leadership is not just "something to consider; it's imperative."

***Harvard MBA women form a group***

"Changing working culture is the first step." That's the recommendation Rosie Bichard, co-president of WomenExecs on Boards (WEoB) offers to Japanese companies. WEoB is a nonprofit organization formed in 2018 by female graduates of Harvard Business School's corporate governance program. The organization's membership is comprised of about 200 women executives and corporate leaders, hailing from 25 different countries. It supports women joining corporate leadership through information sharing and educational programs.

Bichard, who has visited Japan countless times to invest in consumer companies in her role as an executive at an asset management company, says that Japanese corporate culture stands apart. “Men and women are on different career tracks. It’s very difficult to take care of children and also put in long hours in your job.” Most board members are recruited internally, limiting the opportunities for women to become outside directors. Boards of directors at Japanese companies are mostly men in their 50s and 60s. “Japanese companies are behind not just on gender diversity, but also on diversity of thought, age, and experience,” she points out.

A growing number of countries like France and Norway have instituted quotas for female board members to improve diversity, but by contrast, many countries like Saudi Arabia and Japan lag behind. WEoB will step up its activities in Japan. “Japan has shifted to working from home during the pandemic, and a lot of traditional and customary procedures, like putting seals on documents, have been digitized. It’s been proven that you can do things differently than they have been done for the last 100 years.” Bichard anticipates that it could change corporate culture.

External pressure, like quotas and demands from institutional investors, also led to a reconsideration of governance in the US and Europe. Nasdaq introduced regulations requiring listed companies to appoint at least one woman and one racial or sexual minority to their boards, and the SEC approved the requirement in August.

Regulations have been implemented at the state level as well. California was the first to put a corporate gender diversity quota system into place, requiring companies based in the state to include at least 2 women on 5-member boards. Other states are considering similar regulations.
However, introducing systems like quotas doesn’t mean that the number of female board members will increase right away.

***Concrete plans based on data***

Lynda Clarizio, former president of Nielsen US Media, a major American TV ratings company, points out that for companies to increase the number of women on their boards, “it’s important for corporations to develop and grow their pipeline of women leaders.” Clarizio currently serves as an outside director on the boards of companies based in countries including the US, UK, and Israel. “I wasn’t appointed to the boards on which I sit solely because I'm a woman. It's because of my specific industry expertise and my extensive management experience,” she states. That’s why, she emphasizes, companies must create opportunities for women with those skills to be promoted.

Boards of directors can’t represent diverse shareholders and customers without diversity of race and age in addition to gender. “If all independent directors are white men, they are not fully representative of the public.” Clarizio believes that diversity improves company performance. “Change [in Japan] will happen over time just like it did in Europe and in the US,” she states, advising concrete plans for improving the ratio of women based on a data analysis of the employment situation at all levels.

There’s a very strong link between gender diversity and corporate performance, which has recently been dubbed the “Diversity Premium.” According to a study conducted by the ESG division at Credit Suisse, companies whose boards are more than 20% women saw their company stock performance increase by an average 9.7% during the period from 2010 through September of 2021. By contrast, companies with fewer than 15% women board members saw only a 7.5% increase during the same period. Improving diversity isn’t just a cause, it’s important to improving both corporate earnings and stock performance, and that has led overseas institutional investors to put pressure on Japanese companies.

***The 30% Club encourages top management to change its mindset***

“I want to create a big wave where top executives at major companies get together and appoint women to Japanese corporate boards,” says Yuki Honda, General Manager of Diversity and Inclusion at Shiseido’s Social Value Creation Headquarters. Honda is the coordinator of the Japan chapter of the 30% Club, which aims to increase the percentage of women in decision-making bodies, including on corporate boards.

The Club was founded in the UK in 2010 with a goal of increasing the percentage of female executives to 30% and now has chapters in 17 countries. Masahiko Uotani, the President and CEO of Shiseido, serves as the chairman of 30% Club Japan, which was established in May of 2019. The membership currently includes 73 executives from TOPIX 500 companies with titles ranging from chairman to president to CEO.

30% Club Japan has set a goal for every TOPIX 100 company to increase its ratio of female board members to 30% by 2030. In 2019, the ratio was 10.5%. The numbers are important, but only if they have solid internal backing. Honda visits each member company and meets with its leadership to confirm the strength of their awareness that “companies can’t grow without utilizing the power of women.”

“Growing the pipeline is essential to increase the percentage of women in executive roles and on boards. In addition to closing the gender gap that faces employees as soon as they join the company, it’s also very important to encourage women to develop career awareness at an early stage.” Honda herself was the first woman to join Shiseido in a career-track position (with the prospect of earning promotions, as opposed to working a “general office clerk”) and has built her career while getting married and raising two children. Based on her experience, she set up a “cross-mentoring” program in 30% Club Japan where employees of member companies can share their concerns. It's a place where male and female middle managers in their 30s can have unfiltered conversations with younger employees across company lines.

When the Tokyo Stock Exchange market restructuring plan is implemented in April of 2022, the existing "First Section" will disappear, and the standards for the newly created "Prime" segment that replaces it will be more stringent. The revised Corporate Governance Code requires at least one third of board members at companies that list on the Prime market to be independent outside directors. Appointing female outside directors will be more important than ever to attract foreign investment.

***Mid-size companies' sluggishness frustrates investors***

As major Japanese companies move to improve gender diversity to bring it in line with Europe and the US, many critics point out slow progress at small and medium-sized companies.

Misako Terui is the CEO of Global IR, a US-based consulting firm that provides investor relations support to overseas investors for Japanese companies with market capitalization under 100 billion yen. She points out that "there are many executives who have never spoken to the foreign institutional investors who are their major shareholders. The risk for such companies is that activists will buy their shares without their knowledge, then suddenly demand the company improve gender diversity."

Her firm encourages dialog between management who aren't deeply familiar with the market and friendly institutional investors who are looking out for companies' long-term growth. The goal is to improve governance by conveying feedback to the company after the conversation. Terui explains that the role of her firm is to "encourage companies to proactively make changes before they're targeted by activists."

But, she says, “at small to mid-sized Japanese companies the topic of appointing women outside directors often doesn’t even come up in those discussions.” One of the reasons is because “there hasn’t been enough growth in the number of female managers who could fill the candidate pipeline.”
Since about 80% of the companies listed on the Tokyo Stock Exchange have a market capitalization below 100 billion yen, it’s essential for such companies to develop the careers of women and improve governance in order to meet overseas investors’ expectations.

The preparations for next year’s shareholder meetings have already begun. How seriously will Japanese companies take these recommendations to show that they are changing?