

# Institutional Investor

## 2021 SPEAKER SERIES: The “G” of ESG

### A Roadmap for Boards of Directors to Implement Diversity & Meet Stakeholder Expectations

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On October 21st, Institutional Investor Research held a Speaker Series featuring Tracy Gopal, CEO of Third Arrow Strategies, and Emi Onozuka, COO of Japan Catalyst Inc. The session provided boards of directors with a “Roadmap” to implement diversity and meet shareholder expectations.

Ms. Gopal, a corporate governance expert, set the stage for the meeting, stating clearly that superior corporate governance begins with board composition. Ms. Gopal further noted that meeting shareholder expectations for optimal board composition is in the best interest of the company. Shareholders are concerned with board director training, as board directors can perform better with training. Shareholders are concerned with a skills-based selection approach as gaps in skills on the board can be detrimental to oversight. Furthermore, shareholders are concerned with gender diversity, as gender diversity is associated with performance, employee attraction/retention, innovation, risk management and sustainability.

Emi Onozuka provided further thoughts based on how her firm, Japan Catalyst, a “friendly” Japan activist fund, reviews boards. She emphasized that the firm focuses on diversity in skills, particular capital markets skills which are necessary for driving ROE, age diversity, and diversity in experience, such as work in venture capital in Silicon Valley. The firm also supports gender diversity to eliminate blind spots.

The discussion offered solutions to challenges preventing companies from identifying the most qualified board candidates.

#### **Challenge #1: Board is not fully committed to identifying the best female board talent.**

##### **Solution #1: Train the board directors on the merits of board diversity.**

Board chairs and board directors must deeply understand and recognize the merits of board diversity. Without a deep commitment or understanding of the merits, boards will either a) not hire a female board director (citing that they cannot find a suitable candidate); b) hire one female candidate “checking a box”; or c) stop considering diverse board talent once they have one female director.

#### **Challenge #2: Board/Nom Com cannot easily identify qualified female candidates.**

##### **Solution #2: Utilize Recruiters and Female Board Network Organizations to Identify Candidates Outside of the Company’s Traditional Network**

Historically searches in Japan were relationship based. This is the same as in the United States. However, with the demand for board diversity, companies are now required to expand the board search to include candidates outside of their traditional network. Because outside network connections are limited, it is becoming necessary and common to use recruiters and outside female board networking organizations, such as the Third Arrow Strategies Japan Board Diversity Network, to access candidates not only in Japan, but across the globe. It is important to choose networking organizations and recruiters who can work with a company on its specific needs and know the candidates personally.

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**Challenge #3: Criteria for the position excludes qualified candidates.**

**Solution: #3: Be flexible in considering the requirements for the position.**

**(Title, Age, Nationality, Geography)**

Historically, senior retired executives were selected for board positions. As the demand has grown for both “newer” skills and gender diversity, the qualifications for a board director have changed. A board/nominating committee should identify the skills required for the position, ideally through creating a skills matrix. Once those skills are identified, the company can search for a candidate with those skills rather than a candidate with a specific title. In addition, rather than require a candidate be a certain age, it is better to identify whether a candidate has the right skills and abilities. Now that the world has accepted online meeting technologies, the location and nationality of the candidates can also expand. There are many Japanese living overseas and foreigners who speak Japanese who can be great candidates. Once the concept of using translation for board directors is accepted, the pool of talent expands further.

**Challenge #4: The Nominating Committee may need additional support.**

**Solution: Invest in Training for the Nominating Committee**

It may be necessary to hire advisors to support the committee's process. In Japan, most companies have not adopted a U.S. style three committee board structure, which include a nominating committee, a compensation committee and an audit committee. While now more than half of listed companies have set up a nominating committee, not all nominating committees are majority independent, many likely do not include a woman on the committee, and committee members have not been exposed to best practices in the nominating committee.

**Tracy Gopal, Founder of [Third Arrow Strategies](#):** Tracy Gopal is a corporate governance expert. She focuses on supporting boards and nominating committees in identifying diverse globally-minded talent for Japanese boards. In addition, through the Third Arrow Strategies Japan Board Diversity Network, she provides trainings to female board directors, senior executive officers and other senior female leaders. In addition, she supports companies and investors with effective engagement. Tracy is fluent in both Japanese and English. She can be contacted at [tracy@thirdarrowstrategies.com](mailto:tracy@thirdarrowstrategies.com).

**Emi Onozuka, COO of [Japan Catalyst](#):** Japan Catalyst is an activist fund dedicated to stimulating the Japanese capital markets and transforming the Japanese corporate sector through effective engagement activities. Emi held various roles at Goldman Sachs Asset Management during her twenty years at the firm (2000-2020). She is a prominent speaker on ESG and Stewardship. Emi is fluent in English and Japanese. For information about Emi or the Japan Catalyst Fund activities, please contact Emi at [emi@japancatalyst.com](mailto:emi@japancatalyst.com).

Regards,

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**Director of Japan II Research**

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