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BUSINESS

Corporate Japan Looks for Outside Advice

Shinzo Abe's plan calls on companies to add independent directors to board

By **ERIC PFANNER**

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TOKYO—Japan Inc. is posting a “help wanted” sign.

Japanese companies are scrambling to fill thousands of board seats after a new corporate governance code went into effect this month, calling on publicly traded firms to name at least two independent directors within half a year of their next shareholders' meetings. It is a big change for Japan, where boards have largely been composed of male executives from the companies themselves.

The corporate shake-up, a centerpiece of Prime Minister Shinzo Abe's economic-revival plan, aims to make company bosses more accountable to shareholders, whose interests have often been ignored in the past. Overseas investors have taken notice, helping to lift Tokyo share prices to the highest levels in 15 years.

Mr. Abe has also been pushing to increase the number of women in senior positions, but his plan stops short of requiring companies to have female board members.

Until a few years ago, even many global companies such as Toyota Motor Corp. and Canon Inc. had no outsiders on their boards. Japan's top business lobby long opposed the independent-director quota, arguing that outsiders often don't know enough about company operations to serve effectively.

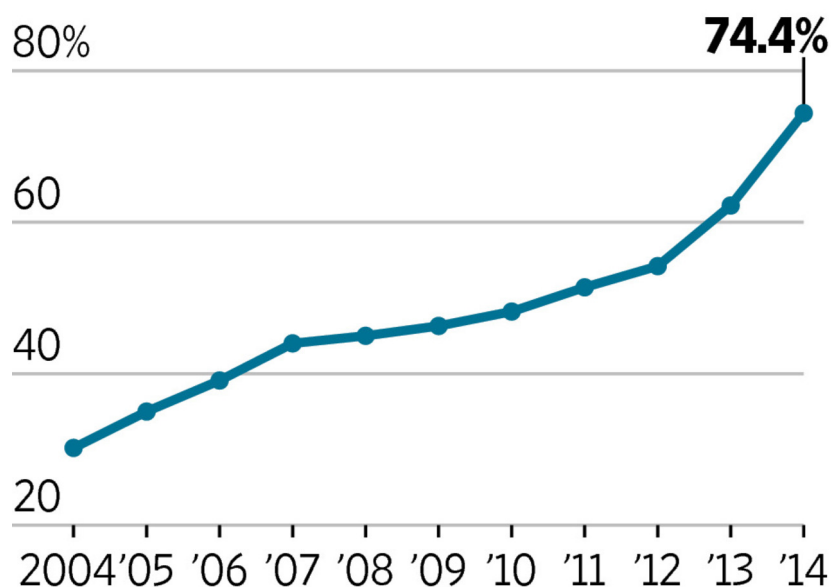
The new governance code stops well short of U.S. rules, which require outsiders to hold a majority of board seats. The Japanese code is nonbinding but requires companies to provide a written explanation if they don't comply.

Most Japanese companies are gamely trying to keep up with the times, scouring the globe for directors who could make their boards look fresher—and less male.

“All of a sudden every company wants to find at least one woman and at least one

New Talent

The percentage of companies listed on the first section of the Tokyo Stock Exchange that have outside directors



Source: Japan Association of Corporate Directors
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foreigner to put on their boards,” said Nicholas Benes, head of the Board Director Training Institute of Japan, one of several groups that provide education for board members.

Japan isn’t alone in its efforts to diversify boards. More than half a dozen European countries—including Germany, where legislation was approved in March—have stipulated that a set percentage of board seats must be filled by women. As of April 1, listed companies in India were required to have at least one female board member, a rule some companies were fulfilling by tapping wives or relatives of executives.

In Japan, about three-quarters of the roughly 1,800 companies listed on the first section of the Tokyo Stock Exchange had at least one outside director by last June, up from fewer than one-third a decade earlier, according to the Japan Association of Corporate Directors. Fewer than 3% of Japanese board seats were held by women, according to Spencer Stuart, an executive-search consulting firm. That compares with 16% at Standard & Poor’s 1500 companies in the U.S., according to proxy advisory firm Institutional Shareholder Services.

With about 3,500 listed companies, Japan ought to have an ample pool of top executives who could serve as outside directors at other firms.

But unlike U.S. companies, which often view duty on another firm’s board as useful experience, Japanese companies frown on this kind of moonlighting. Executives generally stay at one company their entire careers, and often serve as paid advisers to their former employers after they retire.

So some companies are tapping people with no board experience, who are attending director-training classes to get up to speed.

About two dozen newly named directors, including four women, gathered in a boardroom in Tokyo last week for a training session run by the directors' association. Minoru Sawaguchi, a partner at law firm Mori, Hamada & Matsumoto, summarized the history of Japanese company law, the new governance code and compliance issues.

“There is a huge gap between the governance code and what is practiced now,” he told the new recruits, referring to the traditionally cozy relations between boards and management. “You somehow need to fill it.”

Meet Japan's New Corporate Directors

Japanese company boards are getting some fresh blood, including women and non-Japanese members, thanks to a new regulation calling for at least two outside directors per board. Here are some recent appointees, subject to shareholder approval.



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The latest nominations, subject to approval at shareholder meetings this month, include people with vastly different levels of corporate or financial experience. Arthur Mitchell, senior counselor at law firm White & Case and former general counsel of the Asian Development Bank, was tapped by Sumitomo Mitsui Financial Group Inc. Lixil Corp., a provider of bathroom fixtures and building supplies, named Barbara Judge, a former commissioner of the U.S. Securities and Exchange Commission.

Electronics giant Fujitsu Ltd. named Chiaki Mukai, Japan's first female astronaut. Gourmet Kineya Co., a restaurant chain, picked Yuko Ezure, a television and radio journalist.



Ms. Ezure said she was recruited by a former boss who is now an executive at Gourmet Kineya. “At first I hesitated to take his offer, because I don't have knowledge of the restaurant industry,” she said. “But after I was told they were looking for someone who could talk from the perspective of a consumer and a woman, I accepted it.”

‘People don't say anything to criticize their colleagues. I don't have anything to lose. If I feel that I have to speak up, I do.’

—Kiyomi Saito, former Sony executive who serves on the boards of three companies

The new directors will be busy. While U.S. boards concentrate on strategic issues and meet quarterly, Japanese boards delve into day-to-day matters and gather more often.

In the financial year ended March 2014, electronics retailer Yamada-Denki Co. held 58 board meetings, though it reduced the total to 20 the following year.

And some observers warn that the addition of independent directors doesn't guarantee Japan's famously compliant boards will hold executives more accountable.

Masako Egawa, an executive vice president at the University of Tokyo who serves as a director at Asahi Glass Co. , said women could be the most effective outside voices, because "they are not part of the boys' network."

Ms. Egawa is set to join the boards of two more companies, Tokio Marine Holdings Inc. and Mitsui Fudosan Co. , this month, pending shareholder approval.

Kiyomi Saito, a former executive of Sony Corp. and Morgan Stanley who now runs her own financial data firm, serves on the boards of three companies, including Toshiba, and has been named to a fourth. She said she was surprised by the lack of debate over corporate strategy at many board meetings.

"Usually they are very quiet," she said. "People don't say anything to criticize their colleagues. I don't have anything to lose. If I feel that I have to speak up, I do."

—*Chieko Tsuneoka contributed to this article.*

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