Japanese corporate governance has changed significantly over the past 20 years. I started to observe this closely in 1995, when I was invited to join the global board of directors of Korn/Ferry International, where I worked as an executive search consultant. This experience of serving for 12 years on the board of an American company led to Japanese companies such as Kao and Sony to recruit me to join their boards, often as the first woman board member. Serving on the board of directors of 10 major Japanese companies over the past 16 years has provided me a unique perspective on the changes and continuities in Japanese corporate governance since 2001.

Three changes in Japanese corporate governance are particularly noteworthy: (1) the regulatory environment, (2) the structure and composition of boards of directors, and (3) the role of outside or independent board members, especially women members.

Changes in the regulatory environment include the introduction of the Stewardship Code in 2014 and the Corporate Governance Code in 2015. These codes have allowed Japanese investors to become more active in corporate governance, and this has forced Japanese corporations to pay more attention to their investors. However, of the 3,507 companies listed on the Tokyo Stock Exchange and other Japanese stock exchanges, only 70 have adopted the nomination committee system with 637 having the audit committee system — the two corporate governance systems in Japan that allow outside directors to exercise significant influence. The majority of listed Japanese companies still adhere to the audit system, the traditional corporate governance system that gives power primarily to internal management.

The second recent change in Japanese corporate governance is the increase in the number of outside or independent board members. In 2010, only 48.7 percent of the listed companies in Japan had at least one outside or independent board member. By contrast, now, 95.8 percent of the companies have outside board members and, of them, 88.9 percent have independent board members.[1] The current increase is due mainly to the introduction of the Stewardship Code in 2014 and the Corporate Governance Code in 2015, which requires that each company have at least two outside board members.

In addition, the composition of the board has diversified, and the number of women independent board members has increased. In 2004, Ginko Sato at Hitachi and I at Sony were the only women on the boards of the 27 Japanese companies listed on Fortune Magazine's Global Top 200 Companies. This meant that only 0.7 percent of the board members of Japan's top 27 global companies were women. In 2014, of the 25 Japanese companies on Fortune's Global Top 200 companies, 17 had at least one woman board member, comprising 5.2 percent of the total board members of these companies. This is an improvement from 0.7 percent, but it was still a very low number.[2] Given the government initiative to encourage Japanese companies to have at least one woman board member, the number is expected to increase.

The third change in Japanese corporate governance is the expectation by management and shareholders of the role of outside or independent board members. Whereas in the past many Japanese companies did not understand or appreciate the role of outside board members, including women, could play, now outside board members are increasingly valued for their perspectives as outsiders. This is especially important for Japanese companies because most Japanese CEOs have spent their entire career in one company and have had few opportunities to see their company from the outside or to gain exposure to diverse views, including those of women. One indication of this is that although small in number, woman board members are no longer a novelty and are playing major roles chairing nominating and compensation committees and even chairing boards of directors.

Outside or independent board members in Japan face several challenges. First, boards need to diversify further by bringing in women and non-Japanese directors, not because of their gender or nationality, but because they can contribute to the success of the company by providing diverse perspectives from the outside. Second, given the small number of Japanese women with senior management experience, the pool of potential women board members needs to be increased by, for instance, training programs. Third, because Japanese companies are still in the early stages of recruiting outside board members, including women, it is all the more important that these members demonstrate how much value they can provide to the company regardless of gender, nationality, etc.

Finally, we need always to keep in mind that the purpose of corporate governance is to enhance corporate value. In this context, the optimal corporate governance structure can vary depending on the country, regulatory environment, industry, global reach of the business, developmental stage of the company, and more. There is no one size that fits all. But it is clear that Japanese companies need to increase the diversity of their boards to overcome insularity and exclusivity and to enhance their global competitiveness.

[1] The Tokyo Stock Exchange, White Paper on Corporate Governance 2017, March 2017
[2] Corporate Women Directors International, Annual Report

A director's perspective

Sakie T. Fukushima

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Since 2001, she has served on the board of directors of 10 major Japanese companies, including Kao, Sony, Benesse, Bridgestone, Ajinomoto, and Mitsubishi Corporation. She is the author of several books including The Marketable Global Executive. In 2008, Business Week selected her as one of "the World's 100 Most Influential Headhunters" (the only Japanese).

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