



# ICGN

International Corporate Governance Network  
*Inspiring good governance & stewardship*

## Japan Association of Corporate Directors Female Directors and Sustainable Corporate Growth

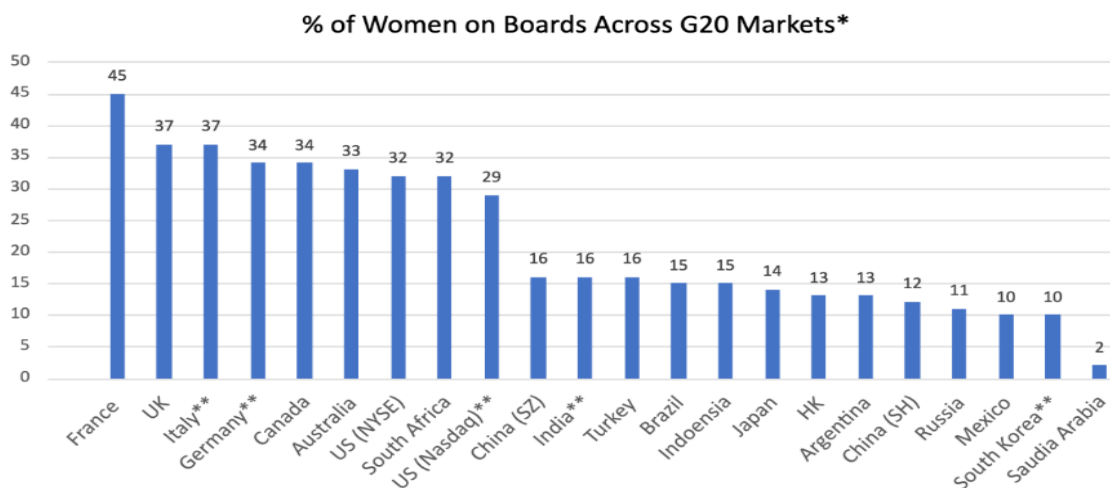
Remarks from Kerrie Waring, CEO, ICGN

30 August 2023

We are delighted to talk to you today about the empowerment of women on corporate boards and across the workforce. We have no doubt that more diverse companies are less prone to 'groupthink' leading to better decision-making, enhanced corporate performance and long-term value creation.

So, I would like to update you on what is happening around the world to promote more women in the workforce, particularly in the UK, and what ICGN itself is doing. Gillian and Aina will then introduce how they approach this subject from an investment and stewardship perspective.

So, let's start with a look at how Japan compares globally.



It is interesting to look at this data from the Sustainable Stock Exchange Initiative.<sup>1</sup> G20 countries are ranked in accordance with the proportion of women on boards in the top 100 companies in each market.

The average is 23% - still below the generally accepted global goal of 33%.

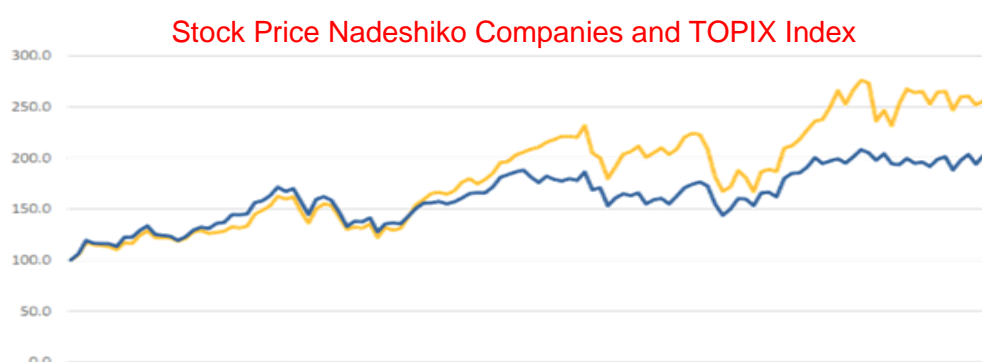
<sup>1</sup> Sustainable Stock Exchange Initiative: Gender Equality Database

It highlights that Japan has some way to go at just 14%. And, according to recent Cabinet Office data, only 2.2%<sup>2</sup> of TSE Prime Market companies have over 30% of women on their boards – with 18.7%<sup>3</sup> having no females at all.

ICGN therefore strongly supports Japan's requirement for at least one female board director by 2025 and at least 30% female directors, auditors, or executives by 2030.

**We also welcome initiatives such as 'Nadeshiko Brand Companies' led by TSE and METI** stipulating that companies should have at least one female board director, action plans, disclosure, and a positive ROE track record.

There is evidence, these companies outperform the TOPIX Index on stock price, operating profit margins and dividend yields, according to a recent report from Sumitomo Mitsui Trust Bank.<sup>4</sup>



**So, progress is going in the right direction in Japan, but how can we expedite this further?**

I am often asked to comment on whether a quota-based approach is best or whether market led initiatives should prevail. It depends on the individual circumstances of each jurisdiction – noting mandatory quotas tend to set a ceiling, whereas market-led initiatives can reach for the sky!

**An example of a market-led approach is the UK** where, under a 'comply-or explain' system, companies must provide a statement in their annual report on whether they have achieved targets for women and ethnic minority representation on their board, or, if not, why not.

There are three clear targets being:

- At least 40% of women on the board,
- At least one senior board position to be a woman (Chair, CEO, CFO, SID), and
- At least one board member to be from an ethnic minority background.

Companies should provide a statement on their actions towards achieving these time-bound targets, complemented with data. They also disclose policies and procedures that contribute to improving diversity, including any mitigating circumstances which may make the targets difficult to achieve.

---

<sup>2</sup> Cabinet Office Data, July 2022

<sup>3</sup> Page 2, Number and Ratio of Companies without female executives [【概要版】女性版骨太の方針 2023 English \(gender.go.jp\)](#)

<sup>4</sup> Sumi Trust Newsletter: Initiatives by Japanese Listed Companies for Gender Diverse Boards

The UK reached a milestone this year with 40% of women on FTSE 350 company boards, according to the FTSE Women Leaders Review.<sup>5</sup> This is up from just 9.5% in 2011 – more than quadrupling the number of women on boards in just over a decade – and there are no all-male boards on the FTSE 350!

Now the focus in the UK is on increasing female appointees to top board positions, noting 38% currently serve as Senior Independent Directors and almost one in five FTSE 350 Boards have a female Chair. UK companies are concentrating on talent development and mentoring programmes, as well as strengthening family-friendly working practices, affordable childcare, and equal parenting.

**In Europe eight countries have adopted a mandatory quota-based system, while others have taken a softer approach.** Most recently, France, has passed legislation for companies to meet a goal of 30% of women in executive and management posts by 2027.

Last year, the EU 'Women on Boards Directive' was adopted making it a legal requirement for public companies to have 40% female Non-Executive Directors, or 33% women across all directors on the board by 2026. This contrasts more aggressively than Japan's approach for 30% by 2030...

**In the US, the Spencer Stuart Board Index<sup>6</sup>, published last year, provides a good assessment of female representation in S&P 500 companies:**

- 32% of board directors are female - up from 17% a decade ago. There were 395 new director appointments last year of which 46% were women.
- All boards have at least one female director.
- 14% of companies have a female board chair, while 7% serve as CEO.
- More females chair board committees with 32% chairing the audit committee, 33% the remuneration committee and 34% nomination committees.

I should note the Californian law<sup>7</sup> introduced in 2020 mandating that boards should include "diverse" individuals, who are racial minorities or those identifying as LGBTQ+. The law was struck down, but regardless had great impact in the US. NASDAQ proposed a "comply or explain" rule in December 2020 which was approved by the SEC in August 2021, that encourages listed companies to have both women and "diverse" individuals (defined by race or sexual identity).

**In Asia too, many countries have opted to use some form of legal intervention;** for example, single gender boards are prohibited for certain companies in Malaysia, Hong Kong, and South Korea.

South Korea is particularly interesting where the 'Glass Ceiling Act' came into effect last year requiring at least one female board member for listed companies with assets of more than 2 trillion Won. The Act has led to more than a doubling of women being appointed to corporate boards over two years - with 221 elected in 2022, up from 95 in 2020.

The Korea Chapter of the Women Corporate Directors Network – or WCD – lobbied hard for this Act and we were proud to give an ICGN Award for their efforts this year. The WCD is

---

<sup>5</sup> FTSE Women Leaders Review: Achieving Gender balance (February 2023)

<sup>6</sup> 2022 US Spencer Stuart Board Index

<sup>7</sup> [California Law Requiring Women on Company Boards Is Struck Down - The New York Times \(nytimes.com\)](https://www.nytimes.com/2022/05/19/us/politics/california-law-women-boards.html), May 19, 2022.

part of a global network helping women create board-ready resumes, interview for senior positions and network.

An investment fund – the Women Fund - was also launched in 2018 concentrated on companies that promote gender equality, thus creating higher employee productivity, investment returns and a more gender balanced corporate culture, ultimately leading to faster growth for the Korean economy.

### **So, how does corporate governance contribute to all of this?**

For those of you, who may not know ICGN, we are an investor-led organisation, with members representing around \$77 trillion of assets under management, based in over 40 countries. Our purpose is to promote the highest standards of corporate governance and investor stewardship worldwide to preserve and enhance long-term corporate value – ultimately benefiting our economies and society.

Our policy positions are clarified in the ICGN Global Governance Principles<sup>8</sup> which are used by many ICGN Members in their voting policies and company engagements. First published in 2001 and written from an investor perspective, the ICGN Principles are used by regulators as an international benchmark. I rely on them for example when participating in meetings of the Council of Experts, convened by the FSA and TSE.

### **So, what do the ICGN Principles say in relation to gender diversity?**

Guidance 3.2 summarises that:

*“Boards should strive for appropriate gender diversity with at least one-third of board positions held by women. Gender diversity should be promoted throughout the company, particularly at senior executive level. Boards should disclose clear time-bound targets and report on progress.”*

We broaden our approach beyond gender in Guidance 3.1 which states that:

*“Boards and the workforce should comprise a genuinely diverse group of individuals to ensure effective, equitable and inclusive decision-making in alignment with the company’s purpose and taking into consideration, the interests of relevant stakeholders. This includes individuals from different genders, age, ethnicities, nationalities, social and economic groups, professional skills, and personal attributes. Boards should disclose and report against the company’s policy on diversity, equity, and inclusion (to the extent permitted by law) which should include measurable goals and period for achievement, the report should include an explanation of how the policy aligns with the company strategy and succession planning for the board and workforce.”*

So, lets unpack this:

1. **Firstly, we define diversity broadly** transcending gender, including things like ethnicity, sexual orientation, and age. Going back to the Spencer Stuart Report, 18% of directors appointed to the S&P 500 in the US last year were aged 50 or younger.
2. **Board composition should reflect a company’s purpose, values, strategic objectives, and succession planning** taking account of key stakeholders.

---

<sup>8</sup> ICGN Global Governance Principles, 2021

3. **A Diversity Policy should be published**, or boards should be prepared to explain why one isn't. The policy should specify measurable, time-bound, targets at board and executive level.
4. **The CEO should take ownership of the executive pipeline** and have a plan to retain, attract, and promote women to leadership positions. This includes training to build self-awareness, resilience, and confidence in constructively challenging management.
5. **The Nomination Committee should set KPIs for the CEO**. The committee itself should be chaired by an independent director (preferably female) and oversee the Diversity Policy, proactively seeking new board candidates, aligned with succession planning and long-term strategy.
6. **The Committee should also lead the annual performance review** of the board, which should be conducted by an independent external consultant once every three years.
7. This prompts me to consider **the role of Director Search firms** in putting forward gender balanced candidates for Nomination Committee consideration and I would encourage greater utilisation of these firms in Japan.
8. **Disclosure around all of this should be included in the annual securities report**, published in English, ahead of the AGM. And we welcome reporting in Japan around the gender pay gap, ratio of females in managerial posts and the ratio of male workers taking parental leave.
9. Be clear about the **rationale for individual director candidates** which should align with a Skills Matrix to demonstrate relevance with the company's purpose, long term strategy and succession planning. Information on other board commitments and tenure is important along with meeting attendance records. And all directors should be subject to an annual performance review.
10. And finally, **engage with investors!** They are your Allies in promoting the long-term success of the company, preserving, and enhancing long term value. And don't be afraid to explain where there are difficulties in meeting gender diversity targets. Investors will want to hear about this and what alternative actions you might then be taking.

**To conclude, let's remind ourselves of what the Japan Corporate Governance Code says about gender diversity.** Principle 4.11 talks about the 'preconditions for board effectiveness':

*"The board should be well balanced in knowledge, experience and skills in order to fulfil its roles and responsibilities, and it should be constituted in a manner to achieve both diversity, including gender, international experience, work experience, age, and appropriate size....."*

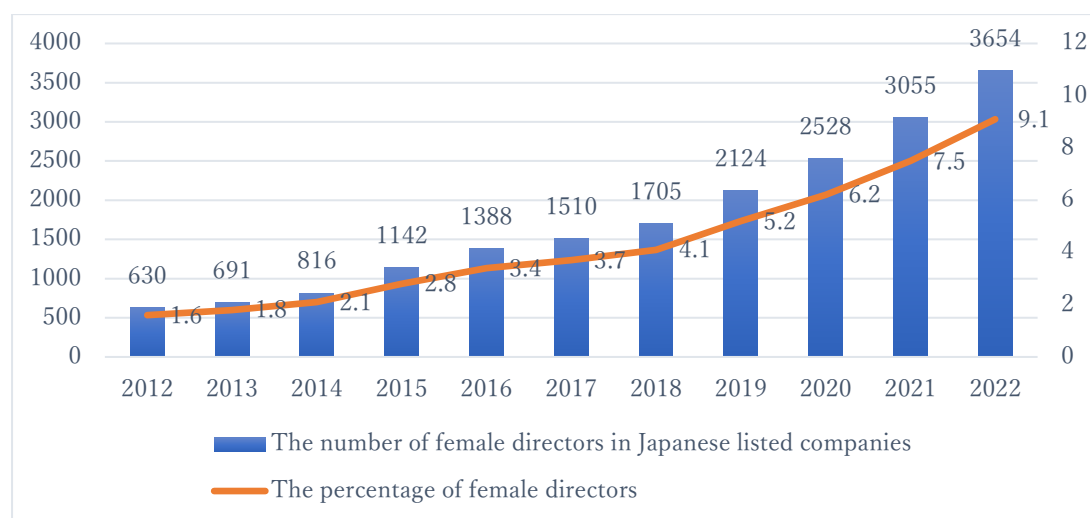
And Principle 2.4 emphasises the importance of their being a pipeline of female representation throughout the company:

*"Companies should recognize that the existence of diverse perspectives and values reflecting a variety of experiences, skills and characteristics is a strength that supports their sustainable growth. As such, companies should promote diversity of personnel, including the active participation of women."*

These measures are helping to achieve positive change in Japan with the number of female directors on TSE listed companies having increased from just 1.6% in 2012 to 9.1% in 2022 according to the Sumi TRUST paper I mentioned earlier. This year, 17 companies appointed female director to their boards for the first time in Japan so we must remain optimistic. But a word of caution- **investors will scrutinise company actions and vote against the election of board members if diversity progress is not sufficient.**

And I should add that investors themselves should have processes in place for evaluating corporate disclosures on gender diversity and publish a clear voting policy, including instances where there is a possibility of voting against the re-election of Board Chairs and Nomination Committee Chairs.

**Gender diversity in Japanese listed companies**



**Ends.**