

PANEL DISCUSSION: SOURCING AND HARNESSING THE POWER OF A DIVERSE BOARD

On February 8, 2022, the 30% Club Japan Investor Group hosted a panel discussion on the theme of **"Sourcing and Harnessing the Power of a Diverse Board."** Panelists shared valuable experiences and thoughts on how to form a diverse board, as well as how to maximize the effectiveness of a board so that all perspectives can be expressed and considered. There were approximately 90 participants on the webinar from corporates, asset managers, and universities.

The panel discussion began with building a common understanding that promoting diversity on the board and throughout the company will lead to an increase in corporate value. Panelists emphasized that it is important to remove the bias that we "cannot find qualified women directors" and that it's important to look outside conventional networks, and identify candidates with a broader range of experiences and skills that will be helpful to the company. In addition, to enhance the effectiveness of the board, panelists advised that directors must be properly informed and have an open atmosphere for discussion, the board must be comprised to have cognitive diversity (diversity of thought), and directors must not be afraid to disagree with other's opinions.

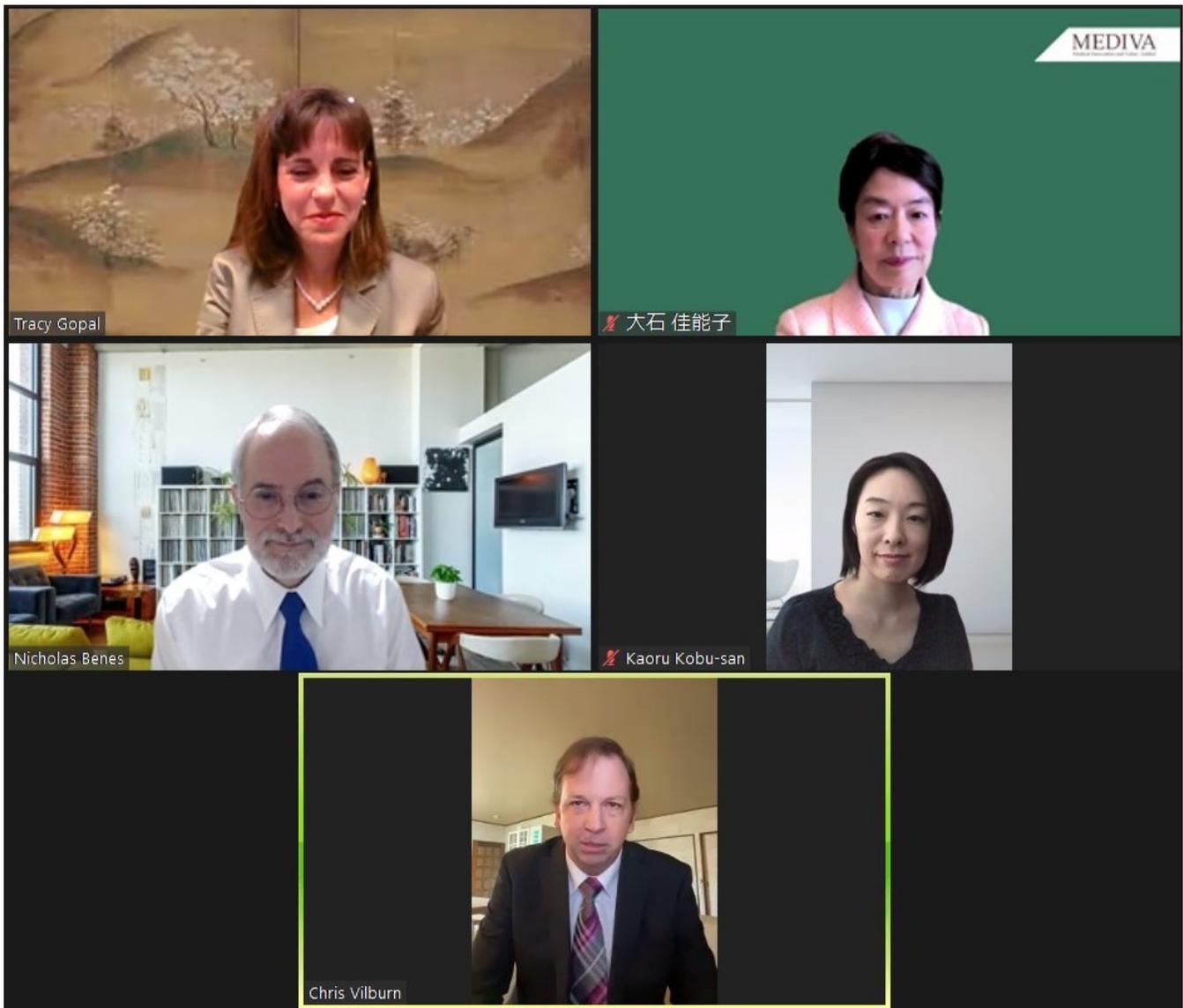


Photo of panelists and steering members:

Top (From left **Tracy Gopal, Kanoko Oishi**)

Middle (From left **Nicholas Benes, Kaoru Kobu**)

Bottom (**Chris Vilburn**)

Speakers

Moderator:

Invesco Asset Management Head of ESG **Kaoru Kobu**

Panelists:

Mediva, Inc. Founder and President **Kanoko Oishi**

The Third Arrow Strategies Japan Board Diversity Network CEO **Tracy Gopal**

Board Director Training Institute Representative Director **Nicholas Benes**

Host:

Goldman Sachs Asset Management Head of APAC Stewardship **Chris Vilburn**

【Summary】

The main topics of the panel discussion included the following:

1) The importance of board diversity

(Oishi) The **board is the main point of contact with society**. There are various opinions in society, and it is necessary to reflect those opinions at the board level.

(Gopal) Some common misconceptions about board diversity are: 1) board diversity is for the benefit of investors 2) by choosing a female candidate, boards are getting less qualified candidates, and 3) one woman equals a diverse board. Not only does diversity help to meet investor demands, having a diverse board leads to **improvement in corporate performance and enhancement of governance**. Having diverse directors, including female directors, has **advantages in creating innovation, reducing risk, as well as being able to hire and retain talent**. And having one woman director is just the starting point, not the goal.

(Benes) For the growth of a company, not only the board but also the employees should also be diverse. It is **important to promote diversity looking into the future**. Women and foreigners will be become more and more needed as future employees in Japanese corporates. By hiring more women and foreigners now, we can increase their motivation and will be able to promote them to directors in the future.

2) How to effectively put together a board with diversity

(Gopal) First, we **need to get rid of the bias that we “cannot find qualified women directors.”** Companies should be flexible in considering the requirements for director candidates, and emphasize skills and diversity over age and title. Candidates should not be limited to Japanese living in Japan. Rather, female Japanese living abroad and non-Japanese can also be considered for positions. Recently, many network groups of female directors and candidates have been established in Europe and the United States. Such networks were established because many companies found it "difficult to find female candidates." The networks not only match the needs of companies with the skills of director candidates, but also provides training for women directors. The "Japan Board Diversity Network" that I established is conducting similar support activities mainly for Japan.

(Benes) It is **necessary for the board to consider what skills will be needed in the future and actively search within a wide range of candidates**. I recommend that companies use more recruitment firms to search for a wider range of candidate directors. An automobile company once asked me specifically to help them find a foreign woman who speaks Japanese and had been CEO at an automobile company. I don't know if such a person even exists! Companies should look for people with a wider variety of skills and backgrounds. Successful female entrepreneurs may be great candidates when looking for talented women directors.

(Oishi) Regarding the development of internal directors, we should reconsider the position of female employees throughout the company and the ideal form of "leadership." Management, which was traditionally regarded as "leadership," is illustrated with a strong leader at the top giving orders to everyone following that person in a form of a pyramid, but fundamentally **"leadership" is to show the direction in which the company should be heading, with people naturally following because they agree with that vision**. Japanese men (or women) who hinder the increase in board diversity should not impose their own methods and should recognize that there is a need for diverse forms of "leadership."

(Benes) Diversity means to be different from each other. It is important to understand that conflict of opinions is what often leads to innovation.

(Gopal) As BlackRock CEO Larry Fink says, "Diversity of Mind" is important. Harmony, Like-mindedness and Agreement are more comfortable, but you should seek to embrace the difference amongst each other.

3) How to maximize the effectiveness of a diverse board

(Oishi) It is important that the **directors are properly informed on the content of the resolutions as well as the company's situation**, and that the chairperson plays a central role in managing a **board that accepts diverse opinions**.

(Gopal) **Cognitive diversity** is not limited to gender diversity, but is also achieved with diversity in age, nationality, sexual orientation, disability, etc. Cognitive diversity **leads to the enhancement of the effectiveness of the board**. A Skills Matrix, showing the skills of each directors is not only for the benefit of investors, but is also of benefit for the company, as it is a useful exercise for understanding whether the company has the necessary skills for the company's future growth.

(Benes) Japanese culture emphasizes cooperativeness, so there is a habit of avoiding disagreements. Also, it is easy to think that the conventional method is better because of the normalcy bias. **One should not be afraid to say different opinions and should first check the rationality of the other person's opinion**.

(Oishi) As for the support and information required for external directors, it is **important to get a first-hand understanding** of what people in major departments are dealing with, and what kind of market situation exists. It is also helpful to **understand what the company looks like from the outside**, such as through discussions with investors and contact points with customers.

4) Q&A

Regarding the desirable composition of the board of directors, and breaking the normalcy bias:

(Benes) **As for the ratio of diverse talent on the board, it is desirable to consider the customer composition of the company, and ensure that at least half of that composition is represented on the board**. For example, if 60% of customers are women, then at least 30% of directors should be women. This idea is supported by Harvard Business School research.

(Oishi) It is better to have a majority of independent directors on the board. When the majority of the directors are external, it is difficult for the company's proposals to pass if they are not supported with the proper basis and background. The company is required to have solid reasoning for each proposal to pass, which leads to the strengthening of governance. It is also better to have more than one female directors. And for foreign directors, it is important that companies have the capacity to prepare materials in a foreign language.

Disclosure of Skill Matrix:

(Gopal) Prudential Financial's skill matrix lists 15 different types of skills, and is a good disclosure to refer to.

(Benes) In Japan, a skill matrix is often disclosed in the AGM materials just before the general meeting, but actually a skill matrix should be a tool for the nominating committee to think about what skills the company does not have in the board now that will be required in the future 5 years or more.

What can external directors do to increase the effectiveness of the company when the board does not have an open atmosphere for discussion:

(Oishi) If there is a meeting for external directors only, they should discuss among themselves on how the board should be and get everyone on the same page. Since the content of discussions will be included in the minutes, it is important to speak up properly even if it is not an open atmosphere. This is not only for the company, but also for protecting oneself as an external director.

How to persuade biased men to fully understand open-mindedness and inclusiveness:

(Benes) The meaning of unconscious bias is that oneself thinks one has no bias. It's important to refer to success stories and empathize with them.

Whether having compulsory regulations is effective in accelerating the promotion of diversity:

(Gopal) California introduced a quota system for directors a few years ago, and I think the quota system is effective. In Japan, diversity on the board is currently at the level of 'Comply & Explain' in the Corporate Governance Code, which does not even recommend a minimum of one woman. Apart from the system, it is **also important to train and develop female director candidates**.

(Oishi) It is difficult to legislate diversity in the Japanese environment, but I think **it is meaningful for investors to enforce their voting rights**. Voting against the president is a powerful method, but it also carries the risk of losing its effectiveness if used excessively. Also, since many board members in Japan currently have no contact with women director candidates, it is **important to create opportunities to network with external directors of other companies**.

(Benes) In the near future, all companies in Japan will be short of human resources, and competition for acquiring talent will intensify. Company executives should have a sense of crisis that they will not be able to create the best talent base unless they expand their workforce to include more women and foreigners.

After the panel discussion and Q&A session, Chris Vilburn, the 30% Club Japan Thought Leadership group leader, shared his impressions of the panel discussion as closing remarks.

The interview Series will be uploaded in the link below. (The website is currently under re-construction, so may not be available at this point)

<https://30percentclub.org/news/>