

Case Studies on Board Effectiveness in Japan

2 June, 2025



金融庁

Financial Services Agency, the Japanese Government

* The cases in this document have been processed based on information collected through interviews, so they do not necessarily represent specific cases.

Background

Action Program for Corporate Governance Reform 2024: Principles into Practice (published on 7 June, 2024) (Excerpt)

[Future initiatives]

In order to improve the effectiveness of boards, it is important to once again share an understanding of the roles and functions to be performed by independent directors, the chairs of boards, and the chairs of nomination and remuneration committees and to appoint individuals who can fulfill these roles and functions. Efforts to achieve this include ensuring a highly transparent process to nominate independent directors and fostering awareness of the roles and functions of independent directors through dialogues between independent directors and investors as well as through evaluations of the board effectiveness, including evaluations of individual directors following their appointment.

In order for these roles and functions to be fully performed, it is also important **for the secretariats of boards and other committees to encourage substantive discussions at the meetings of the board and each committee.**

In order to promote efforts to improve the effectiveness of boards, **practices of such efforts should be shared among the relevant parties.**

[About this document]

- ❑ Building on the conclusion mentioned above in the Action Program 2024, the FSA interviewed selected listed companies to collect initiatives for improving the board effectiveness.
- ❑ This document is based on the premise that there are various approaches and initiatives on how to improve board effectiveness. By showing good practices for board effectiveness, the FSA does not request all listed companies uniformly follow the activities described in this document.
- ❑ This document is to be updated and evolved by establishing a forum for discussion between companies and investors and improving the quality of cases collected. In order to promote the effective implementation of the corporate governance reform, the FSA will continue to collect and share good practices for board effectiveness.

List of interviewed companies on board effectiveness

- ❑ To identify practices for board effectiveness, from September 2024 to January 2025, the FSA interviewed companies that are proactively working on corporate governance reform.
- ❑ The interviewed companies include the following 18 companies listed on the Tokyo Stock Exchange Prime Market or Standard Market.

Interviewed companies (in Japanese syllabary order)

- | | |
|---------------------------------------|---------------------------------------|
| 1. ID Holdings Corporation | 10. DAIICHI SANKYO COMPANY, LIMITED |
| 2. Astellas Pharma Inc. | 11. DAIHATSU INFINEARTH MFG.CO.,LTD.* |
| 3. AS ONE CORPORATION | 12. Tokyo Electron Ltd. |
| 4. ANA HOLDINGS INC. | 13. NEC Corporation |
| 5. SWCC Corporation | 14. Hitachi, Ltd. |
| 6. J. FRONT RETAILING Co., Ltd. | 15. HOYA CORPORATION |
| 7. SHIKOKU KASEI HOLDINGS CORPORATION | 16. Mitsubishi Shokuhin Co., Ltd. |
| 8. Shin-Etsu Chemical Co., Ltd. | 17. Murata Manufacturing Co., Ltd. |
| 9. Daito Pharmaceutical Co., Ltd. | 18. THE YAMANASHI CHUO BANK, LTD. |

* Company name was changed from “DAIHATSU DIESEL MFG.CO.,LTD.” on May 2, 2025.

We would like to express our gratitude to the companies that cooperated with us.

Case studies on board effectiveness: At a glance

- ❑ To support strategic board discussions from a broad perspective, board secretariats have undertaken various initiatives. These efforts primarily focus on agenda-setting, fostering an environment conducive to responsible risk-taking, and enhancing communication among board members.
- ❑ In particular, secretariats often pay special attention to independent directors to eliminate information asymmetry relative to other board members. Proactive engagement from independent directors also plays a valuable role—enabling access to necessary information while maintaining appropriate independence from the secretariat.

Strategic agenda setting

- **Changes to organisational structures** are good opportunities to review agenda items to be approved by the board. There are calls for a constant assessment of the agenda setting and ongoing efforts to improve the effectiveness of board meetings, rather than a one-off review of the agenda.
- The chair needs to take the lead in selecting the agenda, in close coordination with board secretariats.
- Approaches to briefings and coordination in advance of board meetings depend on each company's culture. It is also **necessary for directors to actively work on the secretariat.**

Developing an environment that supports risk-taking

- **Across many companies, efforts are underway to enhance the effectiveness of board secretariats. These include strengthening collaboration among relevant divisions, assigning cross-functional roles across related departments, and strategically positioning the secretariat within the organizational structure to better support governance functions.**
- In many traditional Japanese companies, functional silos—particularly between departments such as Legal and General Affairs—have historically posed challenges to cross-departmental collaboration. Recently, some initiatives have been observed to strengthen functions **by making board secretariats a node between related departments.**
- Some have argued that board evaluations should serve as a means to an end, rather than as an end in themselves. In practice, several companies have used evaluation results to identify areas for improvement, often starting with more manageable issues and gradually expanding their efforts over time.

Deepening communication to achieve highly effective monitoring

- In some companies, the secretariat of the board functions as a hub, and **takes advantage of informal opportunities** to enhance communication between directors and the secretariat in order to collect opinions and **eliminate information asymmetry.**
- When holding board meetings, companies take measures, **such as holding meetings in person or virtually and managing progress to secure time for discussions.** There are many examples of efforts to deepen communication between directors, managers, and the secretariat of the board.
- There are cases where independent directors made various efforts **to deepen their understanding of the business and set up opportunities to interact with employees.** It is also useful for the secretariats of boards to **make the best use of independent directors' knowledge.**

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Agenda setting in board meetings

- Many companies carefully select agenda items for board meetings to ensure sufficient time for the board of directors to focus on monitoring management and holding strategic discussions with broad and mid- to long-term perspectives in mind.

Initiatives for strategic agenda setting

- Previously, the board had too many resolution items with limited meeting time, leaving insufficient room for strategic discussions. **In line with changes to organisational structures, the board rules were revised to delegate substantial authority to the executive side** and limit resolution items primarily to statutory items, thereby freeing time for strategic dialogue.

- Despite the transition to a company with a nominating committee, etc., the criteria for submitting agenda items to the board remain unchanged from when the company operated under a board of company auditors. It is understood that other companies limit agenda items to statutory resolutions, and the Company also **plans to revise submission criteria** to accelerate execution.

The company submitted several discussion items to the board so that independent directors could assess them from the perspective that the company's common sense is not necessarily equal to that of society. As a result, the board continued to function with a management board mindset, and the submission criteria were not revised. **Taking the opportunity of the change of president, we decided to change the submission criteria**, as well as the board from a management board to a monitoring board.

- We are devising ways to set the agenda for the board meeting. For example, under the assumption that execution and supervision are separated, **reports are made to the board multiple times during the process of developing our medium-term business plan, rather than only its final version being presented**. This approach enables the board's feedback to be reflected in the plan.

- Items to be discussed at the board meeting were sorted out by **revising (increasing) the threshold amounts** for agenda items. This led to securing time for strategic discussions from broad and mid- to long-term perspectives. For example, the threshold amounts for new investments and investment projects were X billion yen or more and Y billion yen, respectively, and they both were increased to Z billion yen.

- To **speed up the approval process, the management committee, a decision-making body, was established on the executive side and granted a significant portion of the approval authority of the board**. Some have expressed the view that further delegation of authority is needed, and discussions on the matter are ongoing.

Advance preparation for board meetings (1/2)

Careful prior coordination with the chairperson

- In some cases, the board secretariat worked closely with the chairperson ahead of the board meeting, enabling discussions on agenda items tailored to each company's circumstances and the chairperson's priorities.

Careful prior coordination with the chairperson

- To facilitate broad, strategic discussions, the company ensures **close coordination with the chairperson who is an independent director**. Specifically, for each board meeting, two to three meetings are held, immediately before and after board meetings and before pre-briefings. Although the board secretariat has become busier since the independent director assumed the role of chairperson, we all feel that board effectiveness has improved.

For example, previously, when an internal director served as chairperson, time was spent hearing from independent directors. **With an independent director now serving as chairperson, the chairperson actively hears from internal directors** during board meetings.

More frequent dialogue between the chairperson and the board secretariat has enabled the secretariat to receive feedback from an independent director's perspective, including comparisons with other companies, which is now being utilized in the operation of the subsequent board meetings. In meetings with the chairperson, we discuss time allocations for the board meetings and key discussion points concerning important agenda items.

- The board secretariat works with **the chairperson who is an independent director**, the CEO, and the COO to set board agendas centered on key themes. In addition, the board secretariat works to enrich discussions at board meetings by, for example, **setting up forums to discuss such key themes outside the board**.

Under the initiative led by an independent director serving as chairperson, the board **ensures time allocations** that keep explanations concise and **dedicate most of the time to Q&A**. Questions on the day are asked in a random order.

Advance preparation for board meetings (2/2)

Pre-briefing board meeting attendees

- To encourage active discussions at board meetings, various measures have been taken, such as sending materials in advance, providing pre-briefings to independent directors, and arranging meetings outside the board, based on each company's perspective and the board's level of maturity.

Pre-briefing to board meeting attendees

- Previous board meetings were marked by limited discussion, largely due to the secretariat's inability to fully grasp each director's **level of understanding, individual preferences, perspectives, and typical approach to commentary**. As a result, exchanges were often confined to a single question followed by a direct answer, without deeper engagement. To better understand each director's perspective, the company introduced meetings outside the board, including off-site meetings, executive meetings limited to independent directors, and one-on-one meetings between the CEO and independent directors.

These supplementary meetings outside the formal board setting helped foster stronger communication among directors and enabled the board secretariat to better understand each member's level of comprehension and typical approach to commentary. This insight was then **used to inform and adjust the structure and facilitation of board meetings**.

- The company has a fundamental policy that encourages active discussions and deliberations by directors during board meetings. As a result, board meetings are typically held in person. To maintain this policy, the board secretariat strives to send materials to directors well in advance, while **refraining from pre-briefings or laying the groundwork on specific agenda items for directors**.

- To support broad and strategic discussions within a limited timeframe, the board secretariat has introduced "pre-briefings" to **reduce information asymmetry** between internal and independent directors, thereby contributing to a more mature board operation. Based on the questions and comments raised during pre-briefings, the briefing section and the secretariat both organise what should be discussed at board meetings and adjust the agenda documents, briefing content, and time allocations.

The briefing section is tasked with providing essential pre-briefings to independent directors ahead of board meetings. **Prior coordination with the business section responsible for briefings has been strengthened** in relation to how reports are delivered at the board meeting and how pre-briefings are conducted.

- Due to limited time available for board meetings, **prior briefings are held online for about three hours**. However, some independent directors have expressed the view that such briefings may be unnecessary, citing their long-term involvement and familiarity with the company's operations.

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Organisational structure of board secretariats (1/2)

- To enhance the effectiveness of board operations and to strengthen the board secretariat function, initiatives have been undertaken. These efforts include repositioning the secretariat within the organisational structure and reinforcing cross-departmental collaboration—often timed with changes in the board structure.

Organisational structure of the secretaries of boards

- In our company, the Corporate Governance Office serves as the board secretariat. It was **established in conjunction with changes in the board structure** last year, having previously been handled by the Legal Department. The Corporate Governance Office also acts as the secretariat for the nomination committee, remuneration committee, audit committee, and management committee. Positioned directly under the president, **it fulfills the role of corporate secretary—bridging supervisory and executive functions and driving governance reform**. Coordination between the board secretariat and senior management, including the chair and president, has also been further strengthened.

Before changes in the board structure, secretariats for each meeting body varied, which limited the extent of sufficient coordination among them. **As a result of the integration of these secretariats into one, unified secretariat operations became possible**. One example of this is the management and operational methods of meeting bodies, such as how to hold meetings, which used to differ from department to department. Consolidating these functions under one department revealed those differences, enabling the **standardisation and streamlining of meeting management and operations**.

Secretariat staff members in the Corporate Governance Office are **cross-assigned to other departments**. This arrangement enables them to stay informed of recent developments, not only the board but also all of the committees and the management committee. As a result, coordination with corporate planning is strengthened.

The board secretariat strives to develop a deep understanding of the company's business and fulfill its role in supporting independent directors. To that end, it works continuously to serve as a **hub for relevant departments**, organise essential information, and refine materials to enhance the quality and effectiveness of board discussions.

- The Company has established **a dedicated unit to serve as the board secretariat**. Although the company established the nomination committee and the remuneration committee as voluntary bodies, their secretariat operations are also handled by the dedicated unit.

Organisational structure of board secretariats (2/2)

- Whether the board secretariat is solely responsible for managing and operating the board, or also oversees shareholders' meetings, depends on how the secretariat is positioned within each company's organizational structure. In some cases, companies strategically place the secretariat between the board and management, allowing it to function as a coordinating node that bridges the two.

- Staff members in charge of the management and operation of key meetings in the General Affairs Department, and also in charge of corporate governance, serve as the board secretariat. The Corporate Governance Department is responsible for the management of the approval process, preparation and operation of shareholders' meetings, and maintenance of internal regulations. **Several staff members serve concurrently as secretariat members for both the board and the management committee.**

- **The Corporate Governance Department serves as the secretariat for both the board and shareholders' meetings.** It is positioned as one of the compliance units. The secretariat function was originally housed within the General Affairs Department, later transferred to the Legal Department, and ultimately established as an independent organisation in April 2024 to reinforce corporate governance.

Different departments serve as the secretariats for the nomination committee and the remuneration committee. The Corporate Governance Department is responsible for secretariat operations for the board of company auditors.

- The Board Office consists of X members in total. **The Board Office centrally manages both the nomination committee and the remuneration committee.** Half of the X staff members are also in charge of the nomination committee and the remuneration committee. The directors of the nomination committee and the remuneration committee are the same, but only the committee chairs are different.

Due to the features of the audit, **a different organisation serves as the secretariat for the audit committee.** Y dedicated staff members are assigned exclusively to the secretariat. The performance evaluations of the secretariat staff are conducted by the audit committee upon request from the executive side, ensuring that executive officers do not interfere with the audit committee's secretariat.

Based on the recognition of the Board Office as **a node between the board and the executive system, an executive officer was appointed as the head of the board office** last year, aiming to help enhance board effectiveness by facilitating communication between the board and the executive side, including the representative executive officer.

In the organisational chart, the board secretariat is positioned between the board and the representative executive officer. **It is not entirely on the supervisory side, nor is it entirely on the executive side;** it focuses on opinion gathering and communication.

Board evaluation

- Many companies conduct board evaluations using a variety of methods, such as questionnaires and interviews with directors. Then, they consider how to apply the PDCA cycle using the annual evaluations and try to put it into practice.

Board evaluation

- The company's board secretariat prepared the anonymous board effectiveness survey using reference information from investors and securities agents. The “Board Challenges” item **allows open-ended responses**. The survey is still evolving, and we have not yet conducted individual evaluations on directors.
- The board evaluation process includes a questionnaire for all directors and individual interviews with both internal and independent directors. All directors together discuss the results, identify areas for improvement, and consider and implement improvement measures. It is important that **not only the secretariat but also the directors themselves be mindful of applying the PDCA cycle**.
- The board evaluations are conducted annually. **Evaluation results are disclosed on the company's website**, along with identified challenges for the next fiscal year. How to enhance strategic discussions from mid- to long-term perspectives remains an identified challenge in the annual evaluations. **The company continues discussions on how the board should be**, including reducing the number of directors, ensuring a majority of independent directors to strengthen supervision, and delegating part of the board's authority to decision-making bodies on the executive side to enable swifter decision-making.
- The board effectiveness analysis and evaluations have actually improved its effectiveness. The effectiveness evaluations for each fiscal year begin in January. Around March, common perspectives on challenges and areas for improvement identified in the evaluations are shared in advance with the chairperson of the board, and the evaluation results are reported to the board in April. **Based on the evaluations, the board secretariat works to address identified challenges within the fiscal year.**
- The company commissions an external vendor to conduct interviews with all directors, covering 30 to 40 question items and gathering feedback on board operations and agenda-setting. The consolidated feedback is shared at board meetings. Areas for improvement on the board's side are discussed within the board, while those on the executive side are shared by the representative executive officer and discussed on the executive side. The Board Office provides support for both processes. **The board reviews whether challenges have been resolved or remain unresolved six months later.**

Column: Company secretaries in the UK

- ❑ Interviews were conducted with overseas experts regarding the “corporate secretary function” of UK companies corresponding to the board secretariat. In UK companies, the corporate secretary centrally coordinates corporate governance matters and serves as a bridge between organisations related to supervision and execution. Legal or corporate governance experts often take the role of the corporate secretary.
- ❑ In contrast, it has been pointed out that in many Japanese companies, the functions supporting the board and committees are often divided across multiple departments, which leads to insufficient coordination in the management and operation of the board and committees. To enhance the board secretariat function in Japanese companies, it is essential to either centralize board support functions by establishing a dedicated department or, if the functions are divided across departments, to ensure proper coordination among them.
- ❑ The board secretariat is expected to serve as a cross-functional upper-level corporate body composed of individuals with expertise in areas such as corporate governance, legal affairs, investor relations, and auditing.

Key responses from experts

- Under the UK Company Act, public companies are required to appoint at least one secretary, and the typical structure consists of a main secretary supported by a deputy or assistant. Some large companies with many subsidiaries have multiple persons in charge within the corporate secretary department, and in that case, it is common that each has distinct responsibilities. The corporate secretary has **the authority to report all board meeting agendas to the chairperson**. The corporate secretary often serves as **the primary point of contact for independent directors**.
- In general, the corporate secretary does not engage in executing a part of actual business operations, but instead plays a back-office or supporting function. Accordingly, they are in a position to **facilitate internal communication in the company** and may also be responsible for risk management and assurance. The primary role of the corporate secretary is to **identify and organise the issues and agenda items that need to be communicated to the CEO. When the CEO prepares regular reports for the board, the corporate secretary assists with this process**. The reports make use of materials submitted by individual business units in the company. In this sense, the secretary acts as **glue between the executive committee and the CEO, as well as between the CEO and the board**, playing a role in managing the tone of decision-making and discussions.
- In smaller companies, directors may also serve as corporate secretaries, but this is relatively uncommon. This is rarely the case, especially in larger companies. When the directors are double-hatting, they typically serve in an administrative function rather than a strategic management function. **In some companies with many subsidiaries, the secretary function is consolidated into a single legal entity** to simplify personnel transfers and other processes, rather than establishing one function in each subsidiary. Or, in some very small-scale listed companies, the corporate secretary function is outsourced when it is deemed unnecessary to be full-time.
- In Japan, it is common for the board secretary to brief individual directors (especially independent directors) on background information related to board agenda items before board meetings, while such practice varies across companies in the UK. Some companies in the UK provide full pre-briefings, while others offer no such explanation at all. **Ideally, if directors have a thorough understanding of the business and can ascertain the contents of the meeting materials, pre-briefings should not be necessary.**

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☆ Column: Highlights from the panel discussion with female executives

Understanding directors' intentions and eliminating information asymmetry

- Some companies are working to strengthen off-board communication between directors—including the chairperson—and the secretariat, aiming to better understand directors' perspectives and eliminate information asymmetry.

Understanding the intentions immediately after the board of directors meetings

- The company believes that confirming the true intentions of the independent directors leads to enhanced discussion at board meetings. Accordingly, **the secretariat participates** in the independent directors' meetings, **held exclusively for independent directors** after the board meeting, and asks questions on the opinions exchanged in the meetings. The company considers that **increasing communication between the secretariat and independent directors** is essential for facilitating casual discussions.

At board meetings, independent directors may not always have specialised knowledge of the company's business, which may cause them to hesitate to ask questions or speak candidly. **Casual discussions** will help enrich their knowledge and encourage candid opinion sharing.

- **Immediately after** each board meeting, **the Board Office interviews directors to gather feedback on what worked well and what could be improved.**

Following each board meeting, **the chairperson and the CEO always hold a review session** to align perspectives with the executive side.

Initiatives to eliminate information asymmetry

- The company places importance on sharing information with the board and eliminating information asymmetry. The secretariat **regularly reports to the board on discussions held at the management committee**, particularly those on risk-related topics such as cybersecurity, generative AI, and governance. Additionally, one director who serves as an audit committee member attends the management committee as an observer, aiming to further promote information sharing.

A well-received effort among directors is the **"CEO Report,"** through which **the management challenges the CEO recognizes** are directly communicated to the board. The CEO Report enables the board to share the challenges the CEO recognizes, which are then discussed in board meetings.

- Some companies are implementing various initiatives to help independent directors gain deeper insight into their operations.

Providing opportunities for the
exchange of diverse opinions

- Unofficial **opinion exchange sessions between independent directors and the President/CEO** are held outside of board meetings. Free discussions are held on topics the President wishes to discuss more **frankly**.
- To help independent directors better understand the company, the following initiatives were implemented: (1) Invitation to internal events related to themes discussed in board meetings (DX, quality, etc.); (2) Site visits aimed at deepening understanding of manufacturing operations (In FY2023, a board meeting was held at a business site in response to an independent director's request to observe the business related to a specific agenda item on site.); (3) Independent directors meetings, held exclusively for independent directors, followed by **“dialogue” between independent directors and executive officers** based on the discussions held during such meetings.

Concerning the independent directors' meetings mentioned in item (3) above, their frequency has increased to six times a year. Multiple “dialogues” between independent directors and executive officers are arranged to enhance communication among directors.

Observing management
committee meetings

- Independent directors are **allowed to voluntarily attend management committee meetings as observers**, and meeting materials are shared with them.
- Independent directors **attend management committee meetings on-site as observers**. Accordingly, on board meeting days, **management committee meetings are held in the morning and board meetings in the afternoon, allowing independent directors to attend each meeting on site**.

As briefings are provided by executives at the management committee meetings, a sense of tension naturally exists. Another benefit is that independent directors can grasp nearly all remarks made by executives, which can then be taken into consideration when evaluating the executives and determining their compensation.

Initiatives involving independent directors (2/2)

Leveraging their expertise, on-site insights, and employee engagement

- Some companies implemented various initiatives to make full use of independent directors' expertise, including M&A processes, next-generation managers development, and interaction with younger employees.

Utilisation of knowledge

- The Company formed a team to **promote and monitor PMI** (Post Merger Integration: a series of integration processes between M&A parties after the conclusion of an M&A deal) about large-scale M&A, and independent directors were brought into the team. **Their knowledge** was leveraged to formulate appropriate programs for maximizing synergies and preventing post-merger turnover to secure talent. In line with the board's supervisory role, independent directors also played a part in ensuring robust discussions around PMI.

Each independent director has different specialties and areas of knowledge. There is no reason not to **make use of a wealth of knowledge available in various situations**, such as M&A.

- Some independent directors serve as **training instructors for younger employees**. As independent directors also serve as members of the nomination and remuneration committee, they can use the opportunities **train next-generation managers** as a reference for future nominations. Having independent directors serve as instructors is considered a highly effective initiative.

Understanding of sites Interaction with employees

- Younger employees benefit by engaging with independent directors from diverse backgrounds, which is expected to enhance their capabilities. At the same time, independent directors can contribute to the development of future leaders, which means they are literally **participating in the succession process**. We intend to continue this initiative.
- We provide outside executives, including audit & supervisory board members, with opportunities for **on-site visits as well as dialogue with employees**.

Measures to improve communication between companies and directors

- Some companies are enhancing communication among directors, management, and secretariat members by designing board meeting formats and progress management methods that foster more effective dialogue.
- Some companies seek to strengthen communication with external stakeholders—including investors—by providing detailed disclosures on their corporate governance initiatives, including the board's role.

Meeting format & schedule	■ In the past, a lack of communication among directors posed challenges—especially during the COVID-19 pandemic, when in-person board meetings were suspended. In face-to-face settings, nonverbal cues like nodding made it easier to gauge reactions and foster dialogue. Online meetings, by contrast, often required every participant to speak on each agenda item, leading to fragmented and inefficient discussions. Now that board meetings have resumed in person, companies are using opportunities like informal gatherings to strengthen communication among directors, including both internal and independent members. ■ Board meetings are typically preceded by committee meetings, with a standard schedule beginning around 8:00 a.m. for the necessary committee meeting, followed directly by the board meeting, which wraps up around 2:00 p.m. Thanks to this extended time allocation, board discussions rarely face time constraints, and the chairperson adjusts the time allotted to each agenda item as needed.
Progress management	■ Information on how measures are being implemented in response to instructions from past board meetings is centrally documented. Each half-year is treated as a single term, during which all board-issued instructions and corresponding actions are compiled into a list. This list is then reported back to the board. Directors are naturally concerned about the progress of measures tied to board-issued instructions. In the past, updates were shared verbally or embedded within related agenda items, but no formal reporting system had been in place. In response to feedback, we have now begun implementing a reporting system for evaluating board effectiveness.
Corporate governance guidelines	■ Our Corporate Governance Guidelines provide detailed descriptions of the roles of the board and other key entities and are updated as needed. They also outline the progress of our governance reforms and are designed to promote a clear understanding of our governance framework. Recognising our intent, some investors have responded with positive feedback.

Enhancing board effectiveness: Perspectives for ongoing improvement

- ❑ To enable the board to focus on broad, strategic discussions, directors and the secretariat are expected to explore further initiatives tailored to each company's circumstances from the perspectives of (1) agenda setting, (2) environment preparation, and (3) communication enhancement, as shown below.

Potential Challenges

Perspectives on Improvement

Agenda Setting	Director	■ A passive approach to the agenda—marked by a lack of active proposals or encouragement for improvement. ■ Insufficient preparation for discussions in director selection due to reasons such as being too busy.				■ Assess whether directors are proactively offering suggestions to the secretariat to foster strategic discussions at board meetings, particularly from broad and mid- to long-term perspectives. ■ Evaluate whether directors are making thorough preparations for board meeting discussions—including carefully reviewing materials and proactively resolving questions in advance.
	Secretariat	❑ Relying solely on precedent when preparing materials—without critically examining discussion items—can lead to routine handling of statutory resolutions on recurring themes at the same time each year. ❑ Adopting an overly conflict-averse stance during board discussions.				❑ Consider whether the agenda is appropriately selected and presented to enable directors to concentrate on strategic discussions from broad and mid- to long-term perspectives. ❑ Review whether the meeting materials provided are well-organised and kept as concise as possible.
Fostering environment	Director	■ A lack of understanding of the secretariat's work—or, even when understood, a lack of perceived need for improvement. ■ Taking the position that information and explanations should be provided by the company, without proactive engagement from directors.				■ Examine whether directors are aware of the current state and challenges of the secretariat's operations through regular, day-to-day interaction. ■ Evaluate whether the board and individual directors are actively engaging with the secretariat or the executive side to improve board management and operation methods.
	Secretariat	❑ Viewing the secretariat's work as solely the responsibility of the Legal or General Affairs Division, while assuming that the Corporate Planning or HR Divisions are not directly involved and are reluctant to be drawn in. ❑ When coordination with other departments is merely performative, it hinders the secretariat's ability to gather the essential information needed for effective board meetings.				❑ Assess whether cross-departmental collaboration in the scope of the secretariat functions is being enhanced as needed by dividing duties among multiple departments. ❑ Consider whether flexible collaboration with other departments is being pursued as needed, without being bound by precedents, to enhance overall governance.
Communication	Director	■ An atmosphere that discourages candid dialogue, where directors feel hesitant or unable to speak openly. ■ Points made by directors are left unaddressed, with no subsequent follow-up on progress.				■ Evaluate whether they, led by the chairperson, are striving to foster a culture that values open and constructive discussions and exchange of opinions at board meetings. ■ Review whether individual directors are engaging thoroughly in discussions and whether discussed matters are carefully monitored and followed up on.
	Secretariat	❑ Conducting mechanical pre-briefings, material sharing, and logistical arrangements following precedents. ❑ Failing to fully understand the true meaning behind independent directors' opinions results in ineffective use of such input in management.				❑ Assess whether continuous improvements are being made to meeting management and operation, such as conducting reviews after board meetings to reflect participants' feedback in future meetings. ❑ Consider whether the company is exploring ways to deepen board-related communication through initiatives tailored to its circumstances.

Case studies on board effectiveness: Table of contents

I Agenda setting

1. Agenda setting in board meetings
2. Advance preparation of board meetings

II Strengthening organisational and institutional structures

1. Organisational structure of board secretaries
2. Board evaluation

☆ Column: Company secretaries in the UK

III Improving communication

1. Understanding directors' intentions and eliminating information asymmetry
2. Initiatives involving independent directors
3. Measures to improve communication between companies and directors

IV Other initiatives related to the Action Program for Corporate Governance Reform 2024

Corporate culture / Resilience / Human capital management /

Promotion of female participation / Requests for sharing practices as reference

☆ Column: Highlights from the panel discussion with female executives

Corporate culture and resilience

- Regarding corporate culture, one opinion emphasised the importance of top management clearly expressing its intent to drive change and consistently communicating that message internally.
- Regarding resilience, a comment highlighted the vital need to maintain supply chain continuity during times of crisis.

Communicating top management's message

- Although our business is in an industry that pursues innovation, we originally had a conservative corporate culture. Therefore, we conducted an internal employee survey and concluded that organisational soundness goals were important. In our 2021 management plan, we included **organisational soundness goals** alongside strategic goals and performance goals.

By embracing a certain level of risk, we have achieved positive outcomes, such as accelerating research activities.

Since the current president took office, we have been holding town hall meetings as well as dialogue sessions with the president, and we believe these initiatives have helped instill corporate culture changes. Information disclosure related to human capital has also been enhanced.

- As one of our initiatives to retain employees, we have **standardised talent development and evaluation processes globally**. We also believe the CEO plays a significant role in this area, and it is effective that the CEO visits the sites around the world to hold gatherings for employees, where they repeatedly receive direct messages that communicate what the company considers important.

- After taking office, the current president gathered all managers to communicate the intention to **reform the organisation into an inverted pyramid structure**. Three years ago, in line with the start of the current medium-term management plan, we defined our purpose. With a commitment to instilling purpose-driven management, the leadership team began on-site visits to engage in direct dialogue with employees—part of a broader initiative known as “communication reforms.” This effort can be viewed as a form of internal investor relations. It took time, but the president’s intentions gradually spread throughout the company. A person who has served as an independent director of the company for around 10 years praised, stating, “**Successive leaders** have worked on transforming the corporate culture and have sent out messages promoting changes. As this mindset permeated the overall organisation, it has likely spread externally as well.”

Supply chain resilience

- As a pharmaceutical company, we believe our core business inherently contributes to addressing social challenges and is directly tied to sustainable growth. In the context of the recent pandemic, responses across the industry varied depending on each company’s business model. Since our focus does not include infectious diseases or vaccines, we have no intention of shifting our philosophy toward those areas. However, maintaining supply chain resilience within our domain remains critical during crises such as pandemics. To that end, we have secured a secondary site to mitigate potential disruptions caused by events like earthquakes or war.

Human capital management

- Promoting investments in human capital is essential for achieving sustainable growth through the appropriate allocation of management resources. There are cases of establishing unique indicators and implementing initiatives to enhance employee engagement.
- Some investors have pointed out the importance of explaining how such initiatives are linked to the company's management strategies.

Corporate practices

- With regard to human capital management, the indicator of “**value-added productivity**” was to set up internally through discussions, referring to the indicators used by other companies that were identified in our independent study sessions with other business entities, while also ensuring the indicator fits our business model.
- We believe it is crucial that each employee takes their goal-setting seriously and incorporates it into their personal career development. It is crucial to consider what approaches are easier for everyone to accept, understand, and make suggestions with.

Our basic approach to human capital is to enhance the skills and motivation of each employee. The company values our employees and has never conducted layoffs due to our business performance. We believe that **such a track record has fostered our employees' trust and psychological safety in our management**. As a result of these initiatives, our employees take on their work with enthusiasm and sincerity.
- Human capital is an area where we must continue to strengthen our initiatives. Although we are implementing various reforms, as a manufacturing company, we have historically allocated more capital to investments in facilities, such as plants, than in human capital, leaving many areas we need to address moving forward. We would like to **use dialogue with investors as a good opportunity** to achieve concrete improvements and results.

Perspectives of institutional investors

- There are increasing requests for companies to disclose non-financial information from institutional investors. Although it is **difficult to explain the financial impact of investments in human capital**, we are expected to disclose and explain various non-financial information in a way that contributes to enhancing corporate value.
- When considering the market price and fair value of a company, financial information tends to be quickly reflected in stock prices. On the other hand, it usually takes three to five years for non-financial information to be reflected in stock prices. **Companies that properly disclose information are always valued by the market**. Therefore, **companies with high ROE also tend to excel in disclosure**, and there is **a strong correlation between the two**.

When it comes to what non-financial information companies should disclose, investors check **whether the disclosed information sufficiently aligns with the company's management strategy, whether it is sufficient, and whether the disclosed targets are not a mere formality**.

In **human capital management**, companies are encouraged to identify and communicate the types of talent they require, the gaps they aim to fill, and the areas where capabilities are currently lacking—**along with the actions being taken to address those needs**.

Promotion of female participation

- Regarding the appointment of female directors, some companies are actively working to increase the ratio of female managers as part of their efforts to secure talented personnel. However, others face challenges in identifying suitable candidates for director roles, depending on the industry or company-specific circumstances.

Recruitment policy

- Initiatives are underway to address the underrepresentation of female managers in society. Within top management, efforts have extended beyond gender diversity to include the promotion of foreign nationals. The company does not necessarily prioritise internal promotion for women; rather, it focuses on recruiting highly **capable individuals, regardless of whether they are from within or outside the organisation.**

Challenges by sector

- Currently, the ratio of female managers stands at approximately 15%, and the company intends to further improve this figure over time. One independent director, who has an engineering background, is **actively creating opportunities to engage with the company's female executive candidates, to enhance their motivation.**
Promoting female managers overseas can sometimes be difficult due to cultural and other differences across regions. The Company also recognizes **challenges in attracting women to enter the manufacturing industry**, which is its primary business domain. The Company is interested in learning about how other organisations identify and recruit talented female candidates for independent director roles.

Local companies

- Challenges remain in promoting women's participation in career-track roles. Many female employees continue to prefer clerical or call center positions as general staff. **Although the company encourages them to shift to career-track positions, it finds this challenging.** Although the company has introduced a new job category called "regional career-track position," which does not involve transfers, many female employees still wish to remain in their current general staff positions.

This reluctance may stem from **concerns that their existing working style could be disrupted, even without relocation.** We are interested in learning from other companies that have successfully promoted women's active participation, particularly in career-track and leadership roles. Specific examples would be highly valuable for reference.

Column: Highlights from the panel discussion with female executives

- In the Action Program 2024, some pointed out that in promoting diversity, it is essential not only to achieve numerical targets but also to ensure the possession of necessary capabilities, and that internal talent development is crucial.
- At a roundtable discussion attended by female executives who serve in CxO positions, some pointed out that diversity should not be limited to gender or global talent. Rather, it is crucial to ensure diversity of opinions based on such factors and to discuss management challenges from various perspectives.

Speakers

- Mutsumi Awaji: Director and Senior Managing Executive Officer (Representative Director), Group CSO, and Group CDTO, The Chiba Bank
- Nanae Saishoji: Managing Executive Officer, Director, CFO, and Executive Director, Corporate Sector, KDDI
- Takayo Hasegawa: Representative Director, Chairperson of the Board, CEO, and Executive President, SWCC

Key Opinions

- It is important to fairly evaluate capabilities and provide opportunities to the person deemed most suitable for the job, regardless of gender. Unless fair evaluations are ensured, discussions may shift toward the simplistic creation of “female quotas,” which would not lead to genuine support for women’s participation.
- In some industries, differences in the scope of work between men and women have existed since the hiring stage for a long time, creating a bottleneck in developing pipelines. Recognizing that expanding the scope of available work is necessary to promote the most capable individuals, initiatives are being undertaken to provide equal opportunities for both men and women to learn and demonstrate their capabilities.
- The board should include men with diverse backgrounds and work experience. In the past, the board not only appeared uniform from a gender perspective but also seemed to lack members with diverse professional experiences.
- The increase in female board members has invigorated discussions at board meetings and disrupted the previous sense of pre-established harmony, highlighting how uniform the board was when composed solely of men.
- The essence of diversity is to incorporate a wide range of perspectives and opinions to drive corporate growth. Therefore, individuals with diverse experiences, regardless of gender, should be included as board members.

Requests for sharing practices as reference

■ We were able to confirm the following opinions from companies regarding the initiatives of other companies they wish to learn from.

Female participation	■ The company is interested in learning about how other companies discover talented female candidates for independent director roles. If there are strong examples of women's active participation, we would like to refer to them specifically.
Independent directors	■ We would like to learn about any initiatives, if any, that have been implemented to help newly appointed independent directors deepen their understanding of the company's business. ■ There is concern that the participation or observation of independent directors in management meetings may hinder candid discussions. We would like to hear about the practices of other companies in this regard, including how frequently independent directors participate in or observe management meetings. ■ We would like to learn how companies incorporate feedback from independent directors and reflect it on the executive side when such input is provided outside of board meetings. ■ We would like to learn how companies that have established voluntary committees beyond the three statutory committees (nomination, audit, and compensation)—such as those for sustainability or risk management—manage and operate these committees. In addition, we would like to understand why some companies intentionally involve independent directors in these voluntary committees when they are appointed as members.
Mindset of executive side	■ With the transition to a company with a nominating committee, etc., we are facing challenges in shifting the mindset of executives and employees who were not previously responsible for business execution. Accordingly, we would like to learn how other companies that have undergone a similar transition have promoted mindset changes among their executive body.
Small and mid-cap companies	■ We would like to know how other companies approach (1) the formulation of succession plans for founding families and (2) initiatives undertaken by the nomination and compensation committees at other small- and mid-cap companies. ■ We would like to ask about (1) how companies manage the appropriate distance and balance in relationships with independent directors, and (2) the outcomes achieved by holding small independent directors' meetings.
Local companies	■ We recognize challenges in the following areas: (1) securing independent directors, (2) recruiting and developing local talent, and (3) promoting female managers.

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