Revisiting Japan's stakeholder-based system and foreign ownership: IR managers' view of foreign shareholders in corporate governance reform in Japanese companies

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Abstract

Purpose – *Building on the institutional theory perspective on corporate governance change and based on interviews with investor relations (IR) managers in large Japanese companies, this study aims to examine Japanese IR managers' perceptions of the influence of foreign shareholders on Japan's corporate governance reform and stakeholder-based system. The paper examines tensions, conflicts and collaborations among different stakeholders involved in corporate governance changes in Japan, especially in the areas of firm ownership, employment relations and boards of directors. The paper explains why convergence does not happen in some large Japanese companies by investigating Japanese managers' responses to and perceptions of foreign shareholders in multiple corporate contexts.*

Design/methodology/approach – *The author conducted in-depth interviews with ten IR managers at large, listed Japanese companies in Kyoto and Tokyo and two managers at foreign investment banks in Tokyo, between 2018 and 2021.*

Findings – *This paper explores five themes that emerged from my interviews: Chief executive officers' (CEOs') mixed perceptions of foreign investors, the effectiveness of CEO compensation and outside directors, managers' reluctance to accept stock price-driven business strategies, foreign investors' engagement vs investments in index funds and gender patterns, including the effectiveness of token female outside directors. The Japanese companies the author looked at incorporated foreign shareholders as consultants and adopted a few major shareholder-based customs, such as CEOs communicating with investors, having outside directors, increasing CEO compensation and slimming down unprofitable parts of the business via restructuring and downsizing. Simultaneously, they resisted a few major shareholder-based practices. Foreign shareholders' pressure revealed tensions and contradictions between the Japanese stakeholder system and shareholder primacy-based customs.*

Originality/value – *This paper is one of the few qualitative studies that explores Japanese IR managers' responses to and perceptions of foreign shareholders in corporate governance reform, with a particular focus on ownership, employment relations and board members. This paper provides examples of tension, conflict and cooperation between Japanese managers and foreign investors, as seen through the eyes of Japanese IR managers. Examining changes in Japan's stakeholder-based system of corporate governance reform enables us to better understand the processes by which, with vigorous pressure from government and foreign shareholders, a non-western country like Japan may adopt shareholder-based customs and how such a change may also lead to institutional changes.*

Keywords *Japan, Corporate governance, Foreign shareholders, IR managers, Qualitative research*

Paper type *Research paper*

1. Introduction

The ownership of Japanese firms has changed distinctly since the 1990s. Japanese firms' exclusive ownership by Japanese banks, financial institutions and other Japanese companies is largely a relic of the past. Japanese banks' ownership of firms went down from 15.7% in 1990 to 3.6% in 2013 (Miyajima *et al.*, 2017, p. 104), and Japanese firms' cross-shareholdings with banks and other firms went down from 50% in 1990 to 14% in 2018 (Nishiyama, 2020). Meanwhile, foreign institutional investment increased from 4.7% in 1990 to about 30.8% in 2013 (Miyajima *et al.*, 2017, p. 104). Furthermore, the Japanese government initiated significant corporate governance reforms in 2014, implementing the Corporate Governance Code and the Stewardship Code, by which institutional investors' influence in firms' governance increased. With these changes to Japan's corporate ownership and corporate governance, much attention has been paid to the question of how an increase in foreign ownership might transform corporate governance in Japanese companies, and specifically to the question of whether Japanese stakeholder-based corporate governance will evolve into a shareholder-based system, as in the USA.

Existing research has indicated that Japanese corporate governance is unlikely to evolve into a US shareholder-based business system, regardless of the increase in foreign shareholders and corporate governance reforms in Japan. Japanese management seems to adhere to the traditional customs and values of the stakeholder system even while reluctantly incorporating the customs of shareholder primacy.

Japan is not the only country in which the system of corporate governance has been modified to adopt shareholder-based customs. Countries changing their corporate governance system to a shareholder-based system has become common globally. The 2004 revision of the The Organization for Economic Co-operation and Development Principles of Corporate Governance recommended a corporate governance code based on the Anglo-American shareholder-based model, so many developing countries converged on a shareholder primacy model, though this change slowed down after the global financial crisis (Samanta, 2019a). The global pervasiveness of Anglo-American corporate governance, stemming from US political and economic dominance, also led to some Asian countries' conversion to the US model, while others in Asia, such as India and China, are still not showing signs of convergence (Tariq *et al.*, 2022). Overall, despite the global prevalence of the shareholder primacy model, complete convergence is not likely to occur at the country level due to the fundamental differences in cultural, economic, legal and socioeconomic factors (Chhillar and Lellapalli, 2015).

There are two opposing perspectives when it comes to the question of which model of corporate governance predominates in a country:

1. the convergence argument, which claims that economic and social globalization pressure transforms a country's stakeholder model to a shareholder primacy model (Hansmann and Kraakman, 2001); and
2. the divergence argument, which emphasizes a country's continuance of and maintenance of institutional differences regardless of global pressure (Hall and Gingerich, 2004).

However, there is a third approach that integrates the other two: the institutional theory perspective, which may be useful, in that it views "convergence and divergence in corporate governance as processes of institutional change and continuity" (Krenn, 2016, p. 1449).

According to the institutional theory perspective, one country's progression in terms of corporate governance changes is a path-dependent process, consisting of both progress and continuities (Aguilera and Jackson, 2010, p. 519). It argues that corporate governance changes occur slowly in the international context (Aguilera and Jackson, 2003, p. 461), and that ongoing changes are non-homogeneous (Aguilera and Jackson, 2003, p. 462; Jackson, 2005, p. 421). The institutional perspective is also highly actor-centric: thus, "actors with varying identities, interests, motivations and strategies" interactively shape the changes (Krenn, 2016, p. 1458). As a result, corporate governance changes involve "interactions among multiple stakeholders" (Aguilera and Jackson, 2003, p. 449).

Using the institutional theory perspective, and based on interviews with investor relations (IR) managers in Japanese firms, this article examines IR managers' perceptions of foreign shareholders and corporate governance reform in Japan. The article examines tensions, conflicts and collaborations among different actors involved in corporate governance changes in Japan, especially in the areas of corporate ownership, employment relations and board membership. In so doing, it explores their perceptions of such changes as the alignment of a chief executive officer' (CEO's) relationship with foreign investors; CEO compensation; the influence of outside directors, including women; and the importance of the IR office.

In short, the article explores how Japan, with its stakeholder-based system, has incorporated into its firms' management style both foreign shareholders' demands and shareholder-based customs. The article illuminates the complexity of ongoing changes in several Japanese companies with various stakeholders underlying the convergence–divergence debate. Building on previous research, it illustrates where and why convergence has not occurred by focusing on Japanese managers' perceptions of foreign shareholders.

Although past research on Japan's corporate governance changes has sought to determine whether Japan has converged with or continued to diverge from the shareholder primacy model, few researchers have qualitatively explored Japanese managers' responses to and perceptions of foreign shareholders and of corporate governance reform. Managers in Japanese companies are the central actors who decide whether or not they will follow foreign shareholders and how corporate governance reforms will be or will not be implemented. Thus, a better understanding of their perceptions of and their interactions with foreign shareholders is critical to understanding the level of changes in Japan's stakeholder system.

The pressure to converge with the Anglo-American, or shareholder primacy, model is pervasive globally (Samanta, 2019a, 2019b; Tariq *et al.*, 2022). Qualitative research into the contexts and processes by which firm managers respond to this pressure provides important insights into understanding how and why changes to a country's corporate governance system may occur or stall. In the case of Japan, it will enable us to learn how this pressure, originating both with the government and with foreign shareholders, can lead a non-western country to eventually adopt several shareholder-based customs and how this does or does not lead to institutional change.

2. Theoretical background and literature review

2.1 Foreign shareholders and corporate governance changes in Japanese companies

The Anglo-American corporate governance system is characterized by short-term equity finance, dispersed ownership, strong shareholder rights, active markets for capital control and flexible labor markets (Aguilera and Jackson, 2010, p. 486), with primary roles being played by shareholders and share prices, share buybacks, mergers and acquisitions and outside directors (Yoshikawa and McGuire, 2008; Vogel, 2019, p. 118). By contrast, corporate ownership by large banks and cross-shareholdings, employees' lifelong employment and internally promoted boards of directors are central characteristics or institutional features of Japan's stakeholder-based system (Jackson and Miyajima, 2007, p. 3).

In the stakeholder-based system, the main bank typically holds less than 5% of the stake, yet other cross-shareholders own about 20% of shares and stable shareholders own over 40% (p. 3). In this insider-focused model of governance, outside interference is traditionally avoided (Seki, 2005), even though cross-shareholding and lifelong employment have been recognized as obstacles to strong corporate performance (Jackson and Miyajima, 2007, p. 9). In Japan, employment and labor relations have long been characterized by lifelong employment and an age-based promotion system, in which employees' "we-consciousness" and sense of loyalty are valued because the companies operate like "community firms" (Inagami and Whittaker, 2005). The traditional Japanese firm has been "run by its elders, who are primarily concerned with the reputation and future prosperity of the firm and the welfare of its members" (Dore, 2004, p. 208). It must be noted that women have long been excluded from the upper levels of this "community firm" employment system, relegated to cost-saving positions as assistants to the men (Inagami and Whittaker, 2005; Nemoto, 2016). Furthermore, primary stakeholders in Japanese businesses have managed to maintain "institutional complementarities" and "institutional equilibrium" among corporations, the labor force and the state, and thus, business changes typically occur very slowly (Aoki, 2010).

Japan's system of corporate governance and most of its post-war economic policies were developed by the Liberal Democratic Party, through its government ministries working in conjunction with industry (Aoki, 2001; Jackson and Miyajima, 2007). Following long tradition, Japanese politicians and government officials have been reluctant to constrain corporate managers' authority over shareholders, regardless of pressure from the USA (Matsunaka, 2018). But, since the 1990s, the Japanese government has started to implement corporate governance reform, promoting the dissolution of the main bank's cross-shareholdings and encouraging institutional investors to develop a dialogue with firm management. Foreign investors' firm ownership has also risen significantly since the 1990s.

For many years, research has been uncovering the increasing influence of various foreign shareholders on Japanese firms. The presence of foreign investors is pronounced among large firms with large market capitalization, high liquidity and high overseas sales (Miyajima *et al.*, 2018, p. 19). Institutional investors may play the role of a disciplinarian with regard to firm management, similar to that of the main bank (p. 31). Ahmadjian and Robbins (2005) found that foreign shareholders influenced Japanese firms in their adoption of such US shareholder customs as restructuring, downsizing and divestiture of assets, especially when the Japanese firms had few ties with, or could not financially rely on, Japanese banks and firms. Meanwhile, Japanese firms remain committed to maintaining employment security (Jackson, 2005, p. 421). Whereas Japanese institutional investors rarely exercise their voices, foreign investors use informal means of speaking up, such as asking questions at shareholder meetings and in private meetings with CEOs, and thus exert their influence on firms (Ahmadjian, 2007, pp. 133–136). Japanese institutional investors have close relationships with Japanese firms beyond shareholder stakes, and therefore, they do not play as critical a role as foreign investors (Ahmadjian, 2007, p. 131).

The influence of foreign shareholders on Japanese firms is said to be limited mostly to large firms (Miyajima *et al.*, 2017). Their influence may be more indirect than direct. Directors may hurt their own reputations or lose support when foreign investors exit and stock prices fall (p. 17). Even though foreign investors may have a disciplinary influence on Japanese firms, the main bank still maintains the traditional authorial role in some firms that rely on bank loans (Miyajima *et al.*, 2018, p. 31). Whereas having an outside director is central to the US shareholder system, the outside director in Japanese companies seems to influence neither corporate performance (Miyajima *et al.*, 2017; Yoshikawa and Phan, 2003) nor corporate governance (Vogel, 2019). Thus, overall, research indicates that while foreign investors have a certain influence on Japanese businesses in their adoption of US shareholder-based management customs, these businesses mostly seem determined to maintain traditional management customs.

In a study of hedge-fund activism in Japan, Buchanan *et al.* (2014, 2020) found that this type of activism does not have a marked influence on Japanese firms' corporate strategies (2014, p. 307). They argued that Japanese managers do not subscribe to the agency theory and reject the shareholder primacy norm (Buchanan *et al.*, 2014, p. 306). In contrast with the agency theory, Japanese shareholders do not see themselves as the owners of a firm but instead engage with it as supporters (Buchanan *et al.*, 2014, pp. 306–308).

Vogel (2019, p. 118) points out that Japan's recent corporate governance reform has been driven by the Japanese government as part of its corporate "growth strategy," resulting in some formal changes in Japanese companies, even though it has not led to the conversion of Japan's stakeholder system. The government implemented corporate governance reform to raise corporate values and share prices after the nation's economic setbacks of the 1990s, which were associated with Japan's stakeholder capitalism, and "sought to facilitate corporate restructuring and make Japanese companies more attractive to foreign investors without jeopardizing managers' autonomy or undermining valued management practices" (p. 126). But, Japanese companies have mostly focused on only risk-evasive, superficial changes rather than fundamental ones. Japan chose such external adjustments and restructuring, he said, because fundamental change "might jeopardize valued institutions such as strong collaborative relationships with workers, banks and business partners" (p. 118).

However, little is known about how Japanese managers, including the CEOs of Japanese firms, have responded to Japan's corporate governance changes. The perceptions of these instrumental actors remain largely unexplored.

2.2 Agency theory and institutional explanations

Research on Japanese corporate governance largely relies on the agency theory (Yoshikawa and McGuire, 2008). Agency theory, the core of US shareholder value, is based on a hegemonic understanding of corporate governance and shareholder primacy. The classic agency theory states that "the central role of the board of directors is to monitor the managers (the agents) to ensure their interests do not diverge substantially from those of the principals (the shareholders), and to devote the company to maximising principals' return" (Clarke, 2014, p. 42). The purpose of the corporation is to deliver shareholder value (Clarke, 2014, p. 44). Agency problems occur when the agents (managers) use the business for their own private purposes, but the principal (owner) can remedy the conflict by checking the action of the agency (Eisenhardt, 1989). Principals engage in various monitoring activities to curb the actions of agents (Panda and Leepsa, 2017, p. 77). Managers' ownership of stocks and service as owners of firms align the interests of the principals and the agents (Jensen and Meckling, 1976). Executive compensation, managerial ownership, the input of a board of directors and dividend distribution all serve as major remedies for principals or owners to exercise their power over agents (Panda and Leepsa, 2017, p. 83). The goal of corporate governance is to align management decisions with shareholders' interests (Jensen and Meckling, 1976).

Research on the convergence of corporate governance with the Anglo-American model is often based on the agency theory (Aguilera and Jackson, 2003, p. 461), but this theory overlooks stakeholder relations and employment relations (Aguilera and Jackson, 2003, p. 448). Also, the agency theory oversimplifies both the complexities of business relationships (Clarke, 2014, p. 42) and the "dynamics change in corporate governance in each institutional environment" (Yoshikawa and McGuire, 2008, p. 19). By contrast, institutional theorists focus on the interactive context, because "corporate governance is the outcome of interactions among multiple stakeholders" (Aguilera and Jackson, 2003, p. 449). Corporate governance evolves through dynamic processes of competing interests and different interpretations of institutional norms, often with political intervention (Aguilera and Jackson, 2010, p. 517). Ongoing changes may be contradictory and ambiguous, yet these changes may be redefined by managers to make them fit the Japanese system.

Thus, extending the institutional perspective, this paper explores how IR managers perceive changes with regard to the influence of foreign shareholders. If Japan is maintaining the stakeholder type of corporate governance, how have foreign shareholders been incorporated into this system? The paper illustrates how IR managers interact with various actors, including Japanese CEOs, foreign and Japanese institutional investors, other firms' managers, managers of cross-shareholding firms and outside board members, and examines how they view ongoing corporate governance changes in their companies.

Investor relations offices are responsible for the enhancement of corporate value and a firm's reputation through strategic communication with the shareholders and analysts (Dolphin, 2004; Hoffmann *et al.*, 2018, p. 294; Laskin, 2011, p. 304). In the USA, IR offices were created by corporate managers to "cushion" an organization from analysts' scrutiny and also to negotiate a favorable relationship with investors (Rao and Sivakumar 1999, p. 38). IR office personnel have played a prominent role in crafting managers' responses to and relations with institutional shareholders, shareholder activists and stock analysts, and their professional communication skills with shareholders have become important in US investor capitalism (Rao and Sivakumar 1999, p. 38). Because of IR offices' "strategic management responsibility" to mediate the relations between management and investors, they have a significant amount of information about ongoing investors' interactions with management. Furthermore, in shareholder-based US firms, investors' decisions largely depend on their impressions of the CEO; CEOs in the USA spend a considerable portion of their time developing relationships with these investors (Chandler, 2014).

In Japan, too, IR managers mediate relations between managers and investors by strategically disclosing firm information to the investors, meeting with Japanese and foreign investors, working with CEOs to advance corporate governance reform and evaluating the overall progress of reform. However, in contrast with the perspective of US investor-driven managers, Japanese IR managers do not view investors as a "threat," nor do they believe that they must abide by shareholder primacy norms. Rather than dealing with shareholders as threats, Japanese managers instead often negotiate the gap between foreign shareholders' shareholder primacy beliefs and their own traditional beliefs in the manager-centric or stakeholder-based model of governance.

2.3 Japan's context: corporate governance reform in Japan

The Japanese government took the initiative in corporate governance reform in the 1990s because of national concern about chronically low stock prices, low growth in financial assets and the state of the country's national pension, which relies on financial assets (Ito, 2016, p. 39). Through the passage of the Corporate Governance Code and the 2014 Stewardship Code, which asked institutional investors to work with their firms on management and financial performance, the government aimed to enhance "corporate value" and thus promote investor–manager engagement in raising the share price of firms.

Previously, the main bank and client companies had played a central role in Japanese corporate governance through cross-shareholdings. Ito (2016, p. 41) characterized Japan's traditional reliance on the main bank as "debt governance," in which the bank had power over companies through long-lasting debt and interest rate payments, and argued that Japan must shift to equity-based governance. The practice of cross-shareholding between banks and companies in Japan was originally undertaken with the goal of "safeguard[ing] top management focus on long-term business strategy," and was also "a precondition for vesting insider control and preventing strategic change of Japanese firms" (Jackson and Miyajima, 2007, p. 8). Because of cross-shareholding in Japanese companies, in which large portions of firms' equities are controlled and illiquid, the threat of a takeover, which is a critical tool of discipline used by managers in America, does not apply (Phan and Yoshikawa, 2000, p. 5). However, cross-shareholdings declined significantly during the banking crises, as a result of declining bank share prices and the Banks' Shareholding Restriction Law in 2001 (Miyajima and Kuroki, 2007). Many of the listed companies in Japan have reduced cross-shareholdings about 20% since 2014 – especially traditional Japanese conglomerates such as Mitsubishi and Mitsui (Nihon Keizai Shinbun, 2021a).

The Corporate Governance Code, compiled in 2015 and revised in 2018 by the Tokyo Stock Exchange and the Financial Services Agency, asked firms to disclose plans for reducing cross-shareholdings with banks and business partners because they prevent a return to equity. More recently, in 2021, US proxy advisor Institutional Shareholder Services (ISS), claiming that cross-shareholdings to sustain intimate corporate ties among Japanese companies are a sign of poor governance and lead to low returns on equity, decided to ask investors to vote against firms that have over 20% of assets as cross-shareholdings (Lewis and Inagaki, 2021). Glass Lewis, another proxy advisor, has also maintained that cross-shareholdings lead to lax risk management and inefficient capital management policy and decided to vote against the chair of a company when cross-shareholdings exceed 10% of a firm's net assets (Glass Lewis, 2022, p. 22).

Board members in Japanese firms have traditionally been insiders (Jackson and Miyajima, 2007). Outside directors mediate between institutional investors and a firm's management in cases of stalemates and hostile takeover bids, and thus need to be independent from management (Seki, 2005, p. 384). The initial version of the Corporate Governance Code did not require firms to have an outside director, but the revision of the code in 2018 (Tokyo Stock Exchange, 2021a) required that more than two board members be outside directors. The 2021 revision went even further, stating that one-third of board members should be outside directors. As a result, over 80% of the listed 400 Japanese companies now name more than one-third of their directors from outside their companies. In only 12% of firms, outside directors consist of over half of all board directors (Tokyo Stock Exchange, 2021b).

The law now makes it mandatory for listed Japanese firms to have outside directors. However, past research has found that having outside directors does not necessarily lead to improved performance for a firm (Miyajima *et al.*, 2017). Miyajima *et al.* (2018) argue that at least three independent outside directors must be appointed for significant changes to happen in Japanese firms.

The Corporate Governance Code also refers to diversity and the presence of women as being important to sustainable corporate growth (Tokyo Stock Exchange, 2021a). The number of female outside directors in Japan has soared due to a series of reforms led by Prime Minister Abe, including "Womenomics," which promoted women's advancement in the workplace. Japanese companies with over 300 employees were required to publish an action plan for gender equality in 2016, and the same will be required of small firms in 2022. Among 2,150 firms, about 36% had outside female directors by 2019 (*Nihon Keizai Shinbun,* 2019) and almost one in two firms did by 2021 (*Nihon Keizai Shinbun*, 2021b) This was a large increase from 2011, when the number was lower than 10% (*Nihon Keizai Shinbun,* 2019). The female outside directors in these firms are mostly lawyers and academic professors rather than senior business managers. The absence of women in middle management nonetheless remains a problem in Japanese companies, and male-dominated corporate culture, including in hiring and promotion customs, has changed little (Nemoto, 2016). Regarding the percentage of female managers in these firms, the average rate among 1,377 firms is only about 8% (Sasaki, 2021), well under the government-set goal of 30%. Past research has pointed out that Japanese companies view gender equality as important for investor relations, and CSR and IR managers have played an important role in increasing the number of female board members in Japanese companies (Mun and Jung, 2017).

CEO compensation in Japanese companies has increased, and the number of corporate managers who receive over US$1m per annum, as well as the number of companies who pay such high compensation, has doubled from 2010 to 2021, even though the highest-paid CEOs tend to be foreigners leading Japanese companies (Sakata, 2021). Echoing the shareholder system, the Japanese Ministry of Economy, Trade and Industry suggests the importance of the idea of incentives in CEO compensation. In Japan, about 42% of the CEO salary is fixed as a base salary, while only 10% of CEO compensation in the USA is fixed and the rest varies depending on a firm's performance (Ministry of Economy, Trade and Industry, 2020). In 2020, research on 954 listed Japanese companies revealed that 74% implemented short-term performance-based executive pay and 63% used performance-based stock options (Deloitte Touche Tohmatsu, 2020).

Regarding CEO compensation, the Japanese government has been encouraging companies to depart from Japan's stakeholder-based egalitarian pay and insider-based management model and to shift to using a pay and management structure based on shareholder primacy. High CEO compensation is a critical element of the US shareholder system: CEOs receive significant compensation in the form of stock options as an incentive to boost stock prices and increase a firm's value in the short term. The Japanese government, as well as foreign shareholders, emphasize that CEO compensation should be incentivized, and that stock ownership will promote managers' leadership in increasing company growth. Japanese CEOs are typically promoted internally, from among lifelong employed individuals, and have traditionally been paid salaries almost equal to those of their employees.

Although, in Japan, the CEO's compensation may be higher now, in keeping with the shareholder system, the rest of the Japanese employee wage system remains the same, a system based on lifelong employment and age-based promotion rather than individual performance-based promotion. Although a large number of Japanese companies claim that they have introduced performance-based pay, they only "reduced the base wage and increased the performance-based component," keeping the overall wage low (Vogel, 2006, p. 215). The incentive-based CEO compensation itself alters the central value of the egalitarian pay system in Japanese companies, yet how and whether changing this will lead to other changes in egalitarian compensation and employment customs in Japanese firms is not clear.

Foreign owners and Japanese bank investors seem to support executive compensation payments linked to firm profitability, while domestic Japanese shareholders may prefer traditional executive payments that relate to a firm's long-term growth (Colpan and Yoshikawa, 2012, p. 556). Directors at larger companies with higher levels of foreign ownership often ask shareholders to approve incentive pay, while small and domestically controlled companies tend to follow more conventional means of compensation (McGinty and Green, 2018). Yet, the performance of companies does not seem to relate to whether their executive payment is performance-based or not (Kubo, 2005).

In the meantime, activist investors held about US$31bn worth of Japanese shares in 2019, twice as much as when the Corporate Governance Code was introduced in Japan, in 2015, and this has enabled an increase in firms' shareholder returns (Miyamoto *et al.*, 2020). Activist funds in Japan had targeted less leveraged firms with high cash balances, pressuring management to increase distribution through dividends and share buybacks (Hamao and Matos, 2018, p. 50). While the share of activists at the global level has decreased, their value in Japan has been soaring. The number of statements submitted by activist funds regarding their owning a large volume of stock in Japanese firms has also increased since 2015. Although activist funds in Japan mostly requested shareholder returns and buybacks with a low success rate between 2004 and 2007, they became less aggressive against Japanese firms after 2015 and started to exercise their authority more in the selection of directors and in downsizing (Miyajima and Suzuki, 2020). American activist firms such as Trian Partners and Value Act Capital have come to be known for taking the long-term approach rather than emphasizing the short-term profit of the firm. "It is clear that there are 'good' activists and 'bad' activists." [...] while "activists usually own less than 5% of the Japanese stocks, they do not use the number of stocks to pressure Japanese [...] they [the good activists] are happy to send us the directors to the board meetings and become the insider of the Japanese companies" (Horie, 2016, p. 7). Thus, some foreign activists have been instrumental in contributing to corporate governance reform in Japan.

The presence of foreign investors in large Japanese firms is often a combination of passive and activist funds. It is likely that the increase in foreign shareholders is largely because of index funds; thus, the foreign shareholders' incentive and level of monitoring of Japanese firms can be limited (Miyajima and Hoda, 2015, p. 34). This is because index fund managers tend to vote with firm managers, and thus, an increase in index fund ownership could lead to worsening corporate governance (Heath *et al.*, 2020). Passive investors tend to have a low-cost approach to firms and limited incentives to invest in stewardship (Bebchuk *et al.*, 2017). If foreign investment continues to increase largely in the form of index funds, foreign investors' monitoring of Japanese firms may be limited. However, others studying the investment landscape (Appel *et al.*, 2016,2019) claim that institutional investors such as the "Big Three" – State Street, BlackRock and Vanguard, accounting for 75% of all indexed mutual fund and exchange traded funds assets – influence firms' governance structures. For example, State Street launched its "Fearless Girl" campaign in 2017, claiming that it would vote against re-electing board members at companies that failed to increase the number of women on their boards, and BlackRock and Vanguard followed their example. This campaign to increase diversity on boards led firms to add 2.5 times as many female directors in 2019 as they had in 2016 (Gormley *et al.*, 2021). Thus, "The Big Three can [...] use direct intervention to influence corporate governance by pressuring companies to adopt governance reforms that are easy to monitor at scale" (p. 32). There have also been positive spillover effects in which proxy advisory firms and other investors undertook the same interventions (p. 3). A *New York Times* article in 2006 reported that ISS affected governance decisions on the value of half the world's common stock (Belinfanti, 2009, p. 386).

Indeed, more recently, the largest US proxy advisors, such as ISS and Glass Lewis, have played critical roles in pressuring Japanese companies to dissolve cross-shareholdings and add women to their boards. Goldman Sachs Asset Management voted against Japanese companies with no woman on the board in 2020 (Kuribayashi, 2020), and Glass Lewis recommended voting against the appointment of top directors of TOPIX 100 Japanese companies with all-male boards (Uehara, 2020). Beginning in 2023, Glass Lewis will pressure prime Japanese firms to have 10% of board members be women, and ISS will vote against all listed Japanese companies with no women on the board (Nihon Keizai Shinbun, 2021c). Responding to this, Japanese institutional investors are also increasingly considering voting against listed Japanese companies (Nihon Keizai Shinbun, 2022). Having female outside directors is important because most directors are often hired from within the CEO's professional network (Gormley *et al.*, 2021, p. 32). However, when I interviewed IR managers, they reported feeling little pressure from foreign investors to increase the number of women managers.

Exploring how IR managers view the influence of foreign investors on a firm and on Japanese management responses, this paper identifies the processes of change and continuity in Japanese corporate governance and management. By focusing on a small number of IR managers' views of foreign shareholders, the paper offers insights into the particular contexts in which, and processes by which, corporate governance changes occur at various levels and foreign shareholders pressure and influence Japanese management.

3. Methods

The results reported in this paper are part of a broader study into the influence of institutional investors on corporate governance, gender gaps and environmental, social and governance(ESG) initiatives in Japanese companies. Corporate governance is "the study of power and influence over decision making within the corporation" (Aguilera and Jackson, 2010, p. 487), in which "different stakeholders in the firm compete" for resources (Aguilera and Jackson, 2010, p. 489). Building on the institutional explanation for Japan's stakeholder-based system, this study uses an induction approach to explore Japanese managers' perceptions of corporate governance changes through their interactions with various stakeholders and shareholders. It seeks to probe their perceptions of the changing dynamics regarding recent major reforms, such as the realignment of CEOs' relationships with foreign investors, CEO compensation, the involvement of outside directors and the importance of the IR office. As comparative studies of corporate governance look at a "constellation of actors" (Aguilera and Jackson, 2010, p. 532), this paper focuses on the multiple contexts in which different stakeholders interact.

Because many Japanese firms have conferred considerable power on managers, changes in corporate governance may occur relationally around the authority of managers. I chose to interview IR managers, because they mediate between top managers and investors and enable two-way communication between a firm and the financial community (Hoffmann *et al.*, 2018, p. 294). I conducted in-depth interviews with ten IR managers at large, listed Japanese companies in Kyoto and Tokyo between 2018 and 2021. I used the snowball sampling method. The interviews were semi-structured. (Tables 1 and 2).

The categorization of Japan's corporate governance by Jackson and Miyajima (2007, p. 3), which argues for the uniqueness of Japan in the areas of (1) corporate ownership and finance, (2) employment and industrial relations, and (3) boards of directors, steered me in conducting the interviews.

I asked questions about changes in these three areas of corporate governance in each firm, including CEOs' views of and relations with foreign shareholders and changes in management customs that relate to corporate governance reforms. I also asked questions about the companies' progress on gender equality in relation to the increase in foreign shareholders. In addition, I asked about firms' commitments to ESG investment. Finally, I talked to the managers of the Tokyo offices of two American investment firms to learn their views on changes of ownership in Japanese companies.

In-depth interviewing enables researchers to analyze the specific contexts in which the managers and employees in a firm view a specific topic: in this case, foreign shareholders. It allowed me to analyze managers' views of changes in Japanese corporate governance and better grasp the range of views across differing contexts and backgrounds. All of my interviews were conducted in the managers' company offices. Each interview lasted between 1.5 and 2 h. Among the ten managers, six were men and four were women.

I recorded the interviews and transcribed them for analysis, then translated them into English. I read the data closely and analyzed them for recurring patterns around the managers' experiences and perceptions of foreign shareholders, CEOs, Japanese management, corporate governance, the Japanese government and the role of IR managers in mediation between shareholders and stakeholders. Five themes emerged from my review of the data, all related to the three areas of institutional changes in corporate governance (Jackson and Miyajima, 2007, p. 3). The themes I note here, for the purposes of categorization, were selected as they were mentioned repeatedly, even emphasized, by three or more interviewees in responding to questions about corporate governance.

The sample I have collected is too small to permit a thorough generalization about all Japanese firms. Yet, it provides critical insight into the tensions and contradictions surrounding Japan's stakeholder-based corporate governance system and its accommodation of US shareholder-based practices. The quotes that are used in the findings section do not necessarily reflect all the respondents' views; though I did seek patterns, some subjects expressed different views that deviated from these patterns.

Table 1 Characteristics of the firms in the study

Characteristics	*Firm A*	*Firm B*	*Firm C*	*Firm D*	*Firm E*	*Firm F*	*Firm G*	*Firm H*	*Firm I*	*Firm J*
Headquarters	Kyoto, Japan	Tokyo, Japan	Osaka, Japan	Tokyo, Japan	Tokyo, Japan	Tokyo, Japan	Tokyo, Japan	Kyoto, Japan	Tokyo, Japan	Tokyo, Japan
Industry	Electronics	Foods	Electronics	Beverages	Cosmetics	Beverages	Beverages	Electronics	Technology	Electronics
Size of capital	JPY64bn	JPY25bn	JPY85bn	JPY27bn	JPY65bn	JPY78bn	JPY43bn	JPY13bn	JPY70bn	JPY500bn
Founded	1930s	1940s	1930s	1940s	1920s	1940s	1940s	1950s	1890s	2000s
Number of employees (inside and outside of Japan)	29,000	15,000	96,000	5800	35,000	30,000	17,000	8200	51,000	70,000
Ratio of foreign shareholders in 2022	36%	19%	36%	18%	45%	35%	36%	40%	20%	29%

Table 2 List of participants of Japanese companies										
Characteristics	*Firm A*	*Firm B*	*Firm C*	*Firm D*	*Firm E*	*Firm F*	*Firm G*	*Firm H*	*Firm I*	*Firm J*
The place where interview was conducted	Kyoto, Japan	Tokyo, Japan	Tokyo, Japan	Tokyo, Japan	Tokyo, Japan	Tokyo, Japan	Tokyo, Japan	Kyoto, Japan	Tokyo, Japan	Tokyo, Japan
Interview length (min)	156	76	93	78	45	44	72	68	70	73

All the IR managers I talked to engaged in similar tasks and shared similar responsibilities. These included:

- providing information about their company's finance and business strategies in responding to investors;
- visiting foreign investors outside of Japan one to several times a year, either alone or with the company CEO or upper managers, to discuss future strategies with them or even to invite them to invest;
- offering advice to management regarding the company's relations with particular investors; and
- conducting daily or monthly meetings with investors.

4. Findings: IR managers' perceptions of foreign shareholders in Japanese firms

Below, I discuss five topics related to how IR managers perceive the influence and role of foreign investors in Japanese firms:

- CEOs' mixed perceptions of foreign investors;
- the effectiveness of increasing CEO compensation and the number of outside directors;
- managers' reluctance to accept stock price-driven business strategies;
- foreign investors' engagement vs. investments in index funds; and
- gender patterns, including the effectiveness of token female outside directors.

4.1 Japanese chief executive officers' views of foreign investors

All the IR managers I talked to agreed that foreign shareholders are important to increasing their firms' value and stabilizing its stock price, and they welcome those foreign shareholders who have an interest in the firm's long-term growth. Some managers who work for traditional family-owned companies, often with older CEOs who highly value loyalty and devotion, expressed negativity toward foreign shareholders. Overall, in contradiction to the classic agency theory (Eisenhardt, 1989; Jensen and Meckling, 1976), Japanese IRs and CEOs do not see investors as authorial entities with regard to managers. Instead, they see the investors, though they are stakeholders in the companies, more as "consultants," offering advice to the CEO. The IR managers of two large family-founded firms had explicitly negative views of foreign shareholders, and their CEOs were also reluctant to acknowledge foreign shareholders as the firm's owners. Three of the IR managers said that, regardless of their negative views of foreign shareholders, their CEOs felt they had to comply with the Japanese government and Japanese evaluation agencies, which release rankings on various indicators of corporate governance reforms and changes, including gender equality.

Japanese institutional investors and cross-shareholding companies, due to their intimate ties with Japanese companies, offer little business advice to the firms (Ahmadjian, 2007, pp. 133–136). By contrast, IR managers saw foreign shareholders as being important and effective consultants to their companies. The IR manager from firm A said, "They buy and sell a huge volume of stocks all at once [. . .]. The foreign investors have power to stabilize our firm's stock price. Japanese institutional investors are not very helpful, because they would not buy our stocks when the market goes down." He added that "friendly activists" play a helpful role, largely as "consultants" who offer them useful tips to raise their stock value. "We are open to any type of investors, including hedge funds. Some of them hold our stock long-term and give us really good advice," said the manager of Firm E. The managers at Firms B and E emphasized that foreign investors are "harsh," bombarding them with complaints and questions, especially when the stock goes down. However, because "traditional Japanese cross-shareholders ask almost no questions about the firm's management," the manager from Firm D said that foreign investors offer the firm much more innovative insights than domestic investors, and almost all the managers repeated the same point.

An IR manager's views of and relationship with foreign investors was correlated with the company CEO's perception of these investors. The CEOs of large, non-owner companies and younger generations of CEOs seemed to be more likely to view their relationship with foreign investors as important to the firm. For example, the president of Firm A, which had one of the largest IR sections among the Japanese firms, was in his 40s. He highly valued foreign investors' suggestions as an "investment" in firm management. Firm E also had a large IR department and had a CEO who was previously the CEO at the Tokyo office of a large American firm; he maintained a good, communicative relationship with American investors and was quick to incorporate their advice. The IR manager at this firm said, "Once you get to know the foreign investors, they will suggest to you, why don't you do this and that? They are very important. They always give us long-term advice, like, they tell us that a Korean company is doing this and that in China, what about you? Then, the president will immediately write to us, 'We need to speed up product development. Hurry up with the analysis of consumer trends [. . .]." It is worth noting that all of the "global" CEOs at this firm's branches outside of Japan were educated in the USA. Seven managers explicitly mentioned that foreign shareholders had been helpful with their advice and suggestions. The manager of Firm F said, "We did a huge M&A with a European company two years ago and the shareholders told us that we needed to expand the market globally as the Japanese market shrinks. We had talked about it but a push from the shareholder helped."

In shareholder-based US firms, investors' decisions can be greatly influenced by their impressions of the CEO. CEOs in the USA spend a large portion of their time developing relationships with investors (Chandler, 2014). Similarly, the IR manager at Firm E emphasized that the CEO is expected to respond to investors, showing his leadership and his commitment to maintaining a good relationship. The managers of two firms mentioned the importance of CEO leadership to ensuring a good relationship with investors, while other managers did not talk about this, perhaps because their CEOs are still committed to the concepts of insider-based loyalty and internal hierarchy.

In contrast with Firms A and E, where the CEOs were younger than most of the heads of the Japanese companies, the CEO of the family-owned Firm B was in his 70s and, as a son of the founder, his views had remained unchanged for the past four decades. "Our CEO has been at the top of the firm for a long time. He hates foreign shareholders," said the IR manager at Firm B. "He does not listen to us, either. I have been in charge of this IR office for seven years, but little has changed in the management [. . .]. They do not believe that they are selected by the shareholders; they believe that *they* select the shareholders. So the firm responses to the investors are inconsistent, which is not good." Similarly, the manager from Firm C said that their chairman, who is in his 80s, highly valued employee loyalty:

> The president of our firm is suspicious of foreign investors. He will say, “What do they want? What are they going to do to our money?” The top managers have a negative image of hedge funds [. . .]. they don’t want to be told what to do with this firm by some foreigners whom they hardly know.

This manager said that “the arrogance” of the foreign investors, who act like “they have so much money and they should tell Japanese companies what to do,” is also a problem: “It is not surprising that the top managers dislike them when they are so arrogant.” The manager at Firm E said, “The foreign investors have a huge sense of entitlement because I think they believe that they have the same level of power as the president of the firm.” Beyond such attitudinal issues, the CEOs of the large family-owned companies where I did interviews were not willing to change their traditional management style to accommodate foreign shareholders. The IR manager at firm H said:

> There are many companies in Japan that hire so-called “salaryman CEOs” who change every three years. These tops are susceptible and responsive to outside pressures. But, in our family-owned company, the top sits in the leader’s position for a very long time. They do not change the rules under any outside pressure. We have a history and style of management in this company. I don’t see the presence of foreign investors changing anything in this company.

These types of managers, embedded in firms with traditional Japanese values such as conscience, loyalty and devotion (Inagami and Whittaker, 2005; Dore, 2004), expressed aversion to and distrust of foreign shareholders.

The younger generation of IR managers were ambivalent about these old Japanese management values. Thus, even in the firms where the top managers had negative views of foreign investors, the IR managers still thought that foreign investors might be able to “educate” the leaders, who would occasionally listen to some foreign investor’s advice when it was recommended by the IR manager. “It takes a lot of effort. I tried to create an opportunity for the shareholders to talk directly to the president,” said one manager.

I heard about at least one case in which a US activist successfully reformed a Japanese firm. The manager at Firm A explained that sometimes it may not be a foreign investor who threatens a Japanese company but rather its internal management. In a firm he knows, the Japanese top managers themselves asked the foreign director of an activist firm to join their management team to implement the changes they themselves could not do: doing away with certain rigid, traditional customs. There must have been significant pressure from retired executives and top insiders at the firm, who remained too influential with the existing management, to keep the company as it was. It must have been frustrating for these executives to be unable to do anything while their firm’s performance deteriorated globally. The American activist firm purchased stocks and one of them joined the management as an outside director. The management then executed large-scale downsizing and restructuring and the foreign director took all the blame. The retired executives were unable to say or do anything against the new director because he was an American. That is how change finally happened. There are certainly many Japanese companies in a similar position, unable to do what is needed to raise their firm’s value.

The CEOs of the two family-owned firms, B and H, that earned revenues mostly inside Japan rather than in global markets, as well as the CEOs of firms with high cross-shareholding with large Japanese conglomerates (such as Firm D), seemed to have little interest in the approaches suggested by foreign investors and reiterated negative stereotypes regarding these investors. By contrast, the large firms with over half of their profits coming from outside of Japan, including Firms A, E and G (and definitely those who have acquired foreign firms, like Firm F), highly valued the relationship with foreign shareholders. The responses of CEOs to foreign shareholders in Japanese firms are not homogeneous, and depend on the CEO’s age and background, the firm’s traditions and the sources of the firm’s revenues. But, with the rise of the presence of activists in Japan, collaborative reforms may be increasing in Japanese companies. What may be making a difference, as previous research has shown (Miyajima and Suzuki, 2020), is that activist foreign shareholders are intentionally approaching Japanese management with a less aggressive approach.

4.2 Perceptions of chief executive officer compensation and the role of outside directors

Most of the IR managers I interviewed mentioned that foreign investors request an increase in CEO compensation and an increase in the number of outside directors in their firms. All the Japanese firms in which I interviewed did increase both of these. Regarding the first of these, the logic of high CEO compensation to align the interests of principals and agents (Jensen and Meckling, 1976) is central to the classic agency theory and to the shareholder-based system (Panda and Leepsa, 2017). The IR manager from Firm E said, "Foreign investors' greatest concern is CEO compensation, as there is a one-digit difference between what CEOs get paid in Japan and the United States." The companies with global offices and large global profits seemed especially under pressure to pay a high salary to the CEO, in line with global standards. "The presidents of our global offices would not accept the job if we paid the Japanese level of salary," noted the manager. Thus, presidents of the global offices of Firm E are paid differently from those at the headquarters in Japan, and their compensation depends on the local offices' brand performance. "We increased the pay to the CEO and the president is currently paid about 400 million yen," he revealed.

Yet, with regard to its regular employees, Firm E mostly followed the system of lifetime employment and age-based promotions, with performance-based promotions and raises being the exception rather than the rule. "Even though the foreign shareholders want us to raise CEO pay, what about incentives for the rest of the employees, who are not paid the same way?" asked the manager. Three managers expressed concerns that extremely high CEO compensation, especially when compared to the amount paid in other Japanese companies, might not fit with the egalitarian values that characterize Japanese business; in this value system, there is a belief that all employees should be paid based on their age and years of employment, not the firm's performance or their individual performance.

The manager at Firm A said that, at his firm, adding incentive pay for the CEO in addition to base pay seemed to be working well. He said the company had started to use performance-based pay for the regular employees but still mostly followed the system of seniority promotion, based on the "Japanese idea of reward and equality based on years of service." Even when a few Japanese managers explained to me that their firms introduced performance pay and promotions, they usually listed only one or two individuals in the company who were promoted exceptionally quickly, with one manager noting, "We still say we should reward person A because he worked very hard at this company and he worked three years longer than this person." The manager of Firm G asserted that seniority-based pay and promotion works well in manufacturing, in which one's experiences and skills align closely with one's years of work. "People who know the industry for many years are valuable," he said. Therefore, in such a setting, a seniority pay system makes the most sense, not "a rapid and radical performance pay system." The manager of Firm F said, "Our salaries go up in total about 3% every year, but there are many who do not get any raise. So, the system is not entirely based on age." Most managers confirmed that "one's underperformance leads to his/her low salary now." Several managers also added that they cap salaries of older executives. The manager at Firm F said, "Current executives cannot maintain their managerial power and pay level after they reach 55 years of age," and added that this "cap" for senior management salaries was strongly supported by foreign shareholders. Overall, it seems that many Japanese companies are now employing performance-based pay in creative ways (Vogel, 2006).

The managers I talked to pointed out that high CEO pay occurs because of the government emphasis on a shareholder-based system and at the request of foreign shareholders, but there are downsides. Some speculated that such an increase in only executive compensation (i.e. not also rewarding the lower managers and non-managers) could “lower employees’ motivation” and thus “may not be suitable for Japanese companies.” Three managers expressed frustration about this reform, arguing that so-called incentive-based pay simply widens the pay gap and disincentivizes employees. The manager at Firm B pointed out another possible negative outcome of such high CEO compensation in Japanese companies.

> Their logic is that the salaries of upper management should reflect the value of the company. The CEO needs an incentive to increase the stock price of the firm. Yet there is no specific rule or standard regarding the range of compensation. If we bring in someone from outside the firm, we have to pay maybe 50 to 60 times higher pay to them. I am not sure if such a system is right, either. Maybe it is not for us, not for Japanese companies.

A manager at Firm H, where the upper managers are already paid extremely high salaries, made still another argument against it, saying, “The issue is not CEOs being paid high compensation but more about transparency: what he receives should be more monitored and scrutinized”.

Regarding insider-based monitoring (Buchanan *et al.*, 2014; Jackson and Miyajima, 2007), most Japanese managers I talked to, with one exception, were not sure how having outside board members could lead to better firm performance. The manager at Firm B, which had outsiders as about half of its board members, said that the inside managers felt “frustration and resentment” about such an arrangement, because in such a scenario most directors do not know the firm well. He added, “Half of our directors come from outside in my firm, but I am not sure how they changed our corporate governance and the firm’s performance.” He implied that adding outside directors to the board is a superficial reform. By contrast, the manager from Firm A told me that having outside managers improves transparency and monitoring of management:

> Our president says the board meeting makes him highly nervous because of so many questions from the outside directors. I find the outsider director does all the talking while none of the inside directors talk at all. The president sometimes responds to them that he will take the questions back home and get back to them in the next meeting.

Overall, managers’ views of outside directors varied from seeing them as not helpful to viewing them as making top management accountable and transparent and the firm leadership less autocratic. Despite not being certain how outside directors would be useful, most firm managers I talked to did acknowledge their commitment to having them. In part, their attitudes seemed to depend on their firm’s expectations for the outside directors. For example, the manager at Firm A said that his firm only invited previous CEOs of top global firms to be outside directors. The manager of Firm F said his firm invited only top leaders who had successfully led global projects. However, Firms B and H had mostly local professionals, including lawyers and academics, as outside directors. The manager at Firm B said that outside directors are sometimes selected based on how well top managers already know that person, or how well the new director may represent the company to the public, rather than how much the person might be capable of in terms of monitoring or adding value to the firm. In short, the assumption is that adding outside directors is not likely to transform the monitoring and decision-making dynamics of a board of directors.

In summary, the firms I researched have increased CEO compensation to incentivize better performance, though some expressed the belief that this deviates from Japan’s egalitarian pay system. As past research shows (Kubo, 2005), IR managers have not noted a link between incentive-based executive compensation and company performance. The firms also have included outside directors, sometimes as advisors and sometimes more as supporters of the firm, or just as ornaments to enhance the firm's value – but again, as previous research (Miyajima *et al.*, 2017) has indicated, little relationship between the presence of outside directors and firm performance was remarked upon.

4.3 Perceptions of foreign investors' share price-driven strategies

Pursuit of short-term profits, restructuring, layoffs and share buybacks are major characteristics of American shareholder-based businesses (Yoshikawa and McGuire, 2008; Vogel, 2019). But, the short-term pursuit of profit is incongruent with Japan's long-term profit-oriented customs. As past research has found (Ahmadjian and Robbins, 2005), even though most of the Japanese IR managers I interviewed said that their companies have accepted foreign shareholders' suggestion to "slim down" their companies, some explicitly expressed their firms' opposition to foreign investors' suggestions regarding these practices, as they do not fit with the Japanese management style. They argued that the custom of slimming down a business, though very common in a shareholder-based system, can be harmful to and may eventually bring down a business in exchange for only temporary shareholder returns.

The manager of Firm F pointed out that foreign shareholders have a very different idea of how a business should be structured. He explained:

> They do not like Japanese conglomerates. They say, what is the core business of your company? Why do you have so many different businesses going on? Why don't you sell the grocery? Why don't you sell this? Maybe sell that, too, as it is not attractive [. . .] you need to slim down and put on more muscle [. . .].

She added, however, that "We have incorporated their suggestions."

Though some firms have been amenable to slimming down, all of the managers opposed a different suggestion: gaining a short-term increase in firm shares through share buybacks or dividends. They also said that they oppose layoffs. The manager at Firm E said:

> They would tell us to cut costs, slim down the business, and dissolve the cross-shareholding [. . .]. We have cross-shareholdings of only 2 percent, and this is nothing [. . .] There are also some investors who tell us to do share buybacks. But we say no. We saved about 300 million dollars. We insisted that these go to the investment, into the supply chains, not to the dividends. We explicitly told them that investment is our priority and the second priority is the shareholders [. . .]. They do not decide what to do for us. It is we who judge them. We may accept their suggestions only if we judge that they are saying the right things for us, not for them.

Similarly, the manager at Firm F said:

> We do not accept all that they suggest. In the past, the foreign shareholders would say, "You maintain a high global standard and you have a high amount of cash; thus contribute this to us through dividends, just in the short term." I think we are vastly different [. . .] . We told them that we will increase our investment for further growth and we still have to pay back loans. We in fact increased our investment and the firm performance has gone up; they have never told us about dividends since then.

The managers mostly said that the investors do not directly bring up layoffs, perhaps because foreign investors know that many Japanese firms prioritize employment security. Though many firms did agree to "slim down" their businesses, they sometimes did it in more creative ways, like Firm A, whose manager said, "We did not just lay off people. We sold an entire company to another company, including all the employees. It was not really a layoff." But others, like the manager at Firm C, were adamantly against layoffs:

> We have a corporate spirit of helping each other and this is our company motto. We do not lay off people. We had one business in the United States that was creating only 5 percent profit. The American shareholders strongly suggested that we cut our business in the U.S. off. We talked and talked and laid off some people in the branch in America, not Japan. We believe that maintaining people, not laying off, requires a high level of management skill. We have emphasized employee loyalty to the company.

The manager at Firm B criticized American investors as being too driven by short-term profits. “They just want the stock price to jump up so quickly so they can immediately create profit [. . .]. We cannot make our product super-cheap and low-quality, which is basically what they want us to do.” US shareholders told Firm B to sell one of its businesses and focus on one brand.

> We opposed this. Our business strategy apparently differed from what they suggested. I know one of our competitors was told by foreign investors to focus on a very limited number of products [. . .] eliminating most of their brands from the market. Then they were told to regularly report to these foreign investors so that they could make sure that they have increased profits as they suggested. We do not follow such suggestions. We know that it may look extremely inefficient from their perspective that we have varieties of products targeting only the Japanese market, but we make such a business model work in Japan.

With over 70% of Firm B’s profits deriving from the local Japanese market, the IR manager said the firm’s business strategies would continue to focus on Japan even though foreign investors might continue to suggest a shift in focus to a global market and slimming down the number of brands.

The manager at Firm B noted that their largest and most trustworthy investors and partners, for a long time, had been Japanese general trading companies. They also engaged in cross-shareholding. He said:

> Japanese general trading companies, such as Mitsubishi Corporation and Itochu Corporation, have far more power over us than foreign investors [. . .]. We traditionally have directors from those two companies. It is not just tradition. They have our stocks. They have played significant roles in the company’s growth [. . .]. The Japanese government has been pressuring all the companies to dissolve the cross-holdings. Now there are increasing rules to make it difficult to have cross-shareholdings.

Most IR managers I talked to noted this difficulty with the Japanese government, which has made it harder to maintain cross-shareholdings, and said that their companies have been following the path of dissolving them. Whereas large Japanese companies have reduced cross-shareholdings (Nihon Keizai Shinbun, 2021a), the Japanese government and US proxy voters are demanding further reductions (Glass Lewis, 2022, p. 22). But, cross-shareholdings are not just a matter of stocks; they reflect the many intimate management ties between Japanese firms. Given what the manager at Firm B told me about the firm’s close ties with Mitsubishi, it is likely that this kind of arrangement might not change any time soon.

By contrast, Firm A has decreased cross-shareholdings by 50% in the last ten years. Their IR manager made a case for why they have done this, saying, “Those companies who continue to rely on cross-shareholdings and manage the company the way they want to by dismissing foreign investors’ suggestions could easily become the target of foreign activists, as they do not have any immunity to the demands of foreign shareholders.”

To summarize, most Japanese firms have simultaneously slimmed down and restructured their businesses to increase profits as foreign shareholders have suggested. From all appearances, foreign shareholders seem to serve as highly useful consultants and strategists for cost savings for Japanese companies. But those with a significant domestic market and long-established business ties with other large Japanese companies have had a harder time incorporating the suggestions of foreign shareholders to prioritize short-term profit.

4.4 Views of the threats posed by foreign shareholders

It has been pointed out that Japanese companies do not view foreign shareholders as a threat because of cross-shareholdings in which the stocks are not liquidated (Phan and Yoshikawa, 2000, p. 5). In addition to this relatively smaller ratio of liquid stocks, the high amount of passive funds held by foreign shareholders also serves to make Japanese managers view them as non-threatening consultants rather than threatening vultures. The IR managers I talked with said that, on average, over 30% of their shareholders were foreign, but very few of them were activists. Some mentioned that the influence of foreign investors over their firm's management might be limited because a large percentage of their firm's stocks remained fixed or were kept as cross-shareholdings not available for trading in the market.

Others pointed out that both Japanese and foreign institutional investors maintained a large portion of their stocks in the form of a passive index fund, and thus, the threat posed by the activists was not great. Previous research has indicated that foreigners who invest in an index fund may not influence firm management (Bebchuk *et al.*, 2017; Heath *et al.*, 2020), although large institutional investors such as the Big Three "can nevertheless use direct intervention to influence corporate governance by pressuring companies to adopt governance reforms that are easy to monitor at scale" (Gormley *et al.*, 2021, p. 32). Still, at the time of the interviews, no manager viewed foreign shareholders as a threat.

The manager at Firm B said:

> We may not have to listen to outside investors. Only 40 to 45 percent of our stock is "floating" stock or available for trade. Then, one-third of it is owned by foreign shareholders [. . .]. It is about 15 percent [. . .] Not much. The rest of the stocks are owned by Japanese institutional investors and Japanese individuals. About 50 percent of all the stock is owned by the banks and other Japanese financial institutions. So, they can't really do much [. . .] . Especially if the stock price is stable, which it is, they cannot oppose us. That means that there is little need to listen to outside investors' demands.

Likewise, Firm D is part of a large Japanese conglomerate and foreign investors control only about 15% of all its stock shares. The manager said that the company does not view them as a threat, and that foreign shareholders are important for increasing firm value.

The manager at Firm A explained that, in his firm, approximately 95% of Japanese institutional investors are passive funds. He laughed, saying that there is not much effort necessary on his part to impress the Japanese institutional investors, as they automatically pick firm A because "our company is very well known in Japan." According to him, both Japanese and foreign investors add firms that maintain a high stock price or do well with their index portfolios without really investigating the details of the firm's management. He added, "There is this Japanese company that does little on ESG (Environmental, Social, and Governance based investment). Just because their stock price continues to go up high, they are ranked as a top ESG company in the media and all the institutional investors have them in their portfolio." Thus, keeping a high share price, as most of the managers I talked with agreed, is the best and most important strategy to prevent a takeover by activists.

Firm A, similar to the other firms discussed in this paper, had over 30% of its stocks held by foreign investors. A little more than 60% of that 30%, or less than 18% of the total stocks, was held by so-called activist investors, while the rest was held as part of a passive index fund by large institutional investors. The manager of this firm said, "The activists are really a small percentage of all the foreign shareholders." The passive index is becoming a major global trend. The manager at Firm H even said that in the future, the IR office would be meaningless, as it is likely that many of the large companies' stocks will automatically be purchased as part of an index fund.

While many of the companies' IR managers said that foreign investors are critical to maintaining their firm's value, the managers did not see them as a "threat" to management because of the low percentage of activists as well as the large percentage of illiquid stocks held by them, which the Japanese government is pressuring the firms to dissolve. However, proxy advisors such as Glass Lewis and ISS have, since 2021, strengthened pressure to recommend voting against the chair of a company if its cross-shareholding rate is greater than 10% (Glass Lewis) or 20% (ISS) of the firm's stock. In light of this trend, it is highly likely that both US and Japanese institutional investors will continue to pressure Japanese companies to dissolve or disown cross-shareholdings.

4.5 Gender issues and the feminization of IR

All the Japanese companies I looked at had at least one woman who was hired as an outside director. Three of the companies had more than one female outside director. Of all the female board members in the companies I looked at, there was only one female director who was internally promoted, with the rest being outside directors. Regarding women in middle management, all firms except one had only about 10% female managers (the other, Firm E, had around 30%). All the managers said their companies have dramatically progressed in the number of female directors and managers they have added in the past few years, due not so much to pressure from foreign shareholders as to the government emphasis on increasing the number of women in management. Previous research has argued that gender equality continues to be viewed as critical to investor relations (Mun and Jung, 2017), supporting this type of corporate governance reform. Accordingly, many Japanese firms have increased the number of female directors – but not in the middle and low levels of management. Therefore, gender inequality and lack of women leaders persist in Japan (Nemoto, 2016).

Most managers I talked with mentioned that 5 to 10% of their managers were women. They said their companies made these promotions to attain the goal set by the Japanese government and not to please foreign investors, whom, they said, rarely mention gender equality. Two managers I interviewed said that their CEOs are mostly concerned about the Japanese media and the assessment/evaluation companies' rankings of firms' gender equality, not so much the foreign investors.

Firm A's manager said that they only have outside directors with CEO experience at large global firms; some firms select outside directors based on individual or professional connections with the top management; and two said that the top managers choose outside directors based on how well they could advertise the company to the Japanese public, rather than on their management skills or professional qualifications. Because "there are not many women with the experience of CEOs or senior managers at large companies," many Japanese firms have female media figures or celebrities as outside directors. Adding a token woman in a director's position, perhaps for her fame or her appearance, to enhance the firm's reputation does little to change the dominance of male leadership (Mun and Jung, 2017; Nemoto, 2016). Nor does it promote gender equality or diversity. Rather, it reinforces the gender stereotype that women's appearances and feminine mannerisms matter more than their accomplishments or talents, and it explicitly conveys the message that women board members play only superficial roles in Japanese companies.

During the interviews, several managers made a case for IR departments in Japanese firms being feminized. At least four managers explicitly pointed out that some Japanese CEOs still deal with foreign investors dismissively and do not consider IR an important part of corporate management; thus, they felt that the IR section was often not typically rewarded by top management. They concluded that the top management's devaluation of investors and view of IR as not important might have promoted feminization of these departments.

Most of the interviewees indicated that the IR department's image has been similar to that of a PR or advertising department, and is seen as having little to do with management. The manager from Firm B said, "A large number of IR applicants in our firm are women. Many women also tend to see IR as important for their career [...]. The men do not value IR at all. We don't have many male applicants." The female manager at Firm C said that IR is stereotyped as being "feminine," and that "IR is seen as a place for communication and PR, and is seen as a good fit for women." Even women undervalue IR: three of the women I talked to said they wanted to move to different jobs outside of the department. The female IR manager from firm D, most of whose stock is stably held by large Japanese companies with a relatively smaller presence of foreign shareholders, said, "No one, including myself, wants to stay in IR. No one is happy here and it is just a temporary place." Whereas the IR office has been characterized in the USA as mediating between managers and shareholders and as having important "strategic management responsibility" (Rao and Sivakumar, 1999), Japanese top managers' indifference or aversion to foreign shareholders seems to have led to the separation of IR from management and its isolation as a "woman's place."

5. Discussion

This paper examined Japanese IR managers' perceptions of foreign shareholders' influence on a firm's corporate governance changes and on the dynamics of the firm's stakeholders. The paper explored five themes that emerged from my interviews:

1. CEOs' mixed perceptions of foreign investors;
2. the effectiveness of increasing CEO compensation and the number of outside directors;
3. managers' reluctance to accept stock price–driven business strategies;
4. foreign investors' engagement vs investments in index funds; and
5. gender patterns, including the effectiveness of token female outside directors.

All the companies have adopted a few customs common in a shareholder-based system, including slimming down unprofitable businesses in their firms; having outside directors, with women among them; and high CEO compensation. The Japanese companies where I interviewed were not entirely homogeneous in terms of the CEO's background, his relationship with foreign investors and his willingness to accommodate their suggestions and advice. Also, the matter of where the companies earned most of their profits, whether inside Japan or from the global market, and the question of whether the firm was family-owned or not, made a difference to the CEOs', as well as to the IR managers', views of foreign shareholders. Although many Japanese managers seem to be willing to take advice from foreign shareholders regarding downsizing and restructuring (Ahmadjian and Robbins, 2005), they do not view foreign shareholders as being authoritarians or disciplinarians (Miyajima *et al.*, 2018). In fact, some of them strongly disagreed with certain shareholder-based customs, such as the pursuit of short-term profits, layoffs and share buybacks (Yoshikawa and McGuire, 2008; Vogel, 2019). In particular, the managers of the family-owned firms whose profits mostly come from the domestic market saw foreign shareholders as not being effective or influential. And, regardless of the sources of the firms' profits, the Japanese managers I talked to did not view shareholders as authoritative owners who monitor managers and firms in the way that classic agency theory describes in the principal–agent relationship (Fama and Jensen, 1983).

The Japanese government, rather than foreign investors, is the actor exerting the most pressure in the country's drive for corporate governance reform. The IR managers I interviewed argued that their companies have been pressured, more by government-led corporate governance reform than foreign shareholders themselves, to adopt shareholder-based customs and engage in investor relations to raise their firm's value, but they did not see foreign investors as threatening. For the most part, Japanese management, while incorporating foreign shareholders as consultants for cost savings and raising share prices, continues to rely on the customs and beliefs embedded in the traditional stakeholder system: lifelong employment, based on internal ladders of management and intimate ties among companies. Even as Japanese managers have added outside directors, their insider-dominated board patterns (Jackson and Miyajima, 2007; Vogel, 2019) and the dominance of "internal governance" (Buchanan *et al.*, 2014) do not seem to have changed.

With regard to the first theme, almost all the firms' IR managers saw their communications with foreign investors with a large financial capacity as important for the maintenance of their firm value. Many claimed the foreign shareholders' suggestions, including the suggestion to slim down parts of the business, were very useful. But, some CEOs who emphasize the traditional Japanese values of trust and loyalty expressed their distrust of foreign investors. This was particularly true of the family-owned firms whose profits come mostly from Japan, as well as those firms with older CEOs who continue to embrace traditional Japanese customs. The Japanese managers in family-owned companies saw the shareholder-based customs and values as not being compatible with the Japanese style of management (Inagami and Whittaker, 2005; Dore, 2004; Jackson and Miyajima, 2007). Overall, negotiations and communications between firm CEOs and foreign investors varied. One manager mentioned a foreign activist's informal intervention in another firm that led to restructuring and downsizing; this manager claimed that the firm could not have done without the foreign activist's advice because of internal opposition to these necessary changes. Such foreign shareholders' collaboration with Japanese managers may continue to play a major role in Japan. Indeed, activist funds in Japan are increasingly working with Japanese managers in the selection of directors and in downsizing (Miyajima and Suzuki, 2020).

On the second point, several managers mentioned that increasing a CEO's compensation contradicts the egalitarian pay system strongly associated with the Japanese management style, and that such a change might lower employee motivation. This shows that Japan's adherence to the seniority-based pay structure, rather than to a performance-based structure (Vogel, 2006, p. 215), and to employment security (Jackson, 2005) are holding strong. A couple of managers did view incentive-based pay as potentially raising the performance of CEOs. However, as previous studies have pointed out, whether executive payment is performance-based or not has little relation to firm performance (Kubo, 2005). Regarding outside directors, in many cases, they seemed to have been chosen from the CEO's network regardless of their experience and their backgrounds, for the purpose of making a symbolic gesture – and, given this, only a couple of managers saw the presence of outside directors as an aid to better monitoring. This confirms previous research (Miyajima *et al.*, 2017; Yoshikawa and Phan, 2003; Vogel, 2019) on the lack of a correlation between outside directors and firm performance.

Regarding the third theme, most Japanese managers I talked to expressed their opposition to foreign investors' requests for dividend payments and share buybacks, major characteristics of American shareholder-based businesses. They and their CEOs viewed innovation and supplier relations as being more important than shareholder returns. They also opposed restructuring that includes cuts to the labor force as being myopic and too centered on short-term profits. A manager of a firm that had a large domestic market said that reducing the number of their firm's brands for the sake of short-term profits countered their long-term business model; cross-shareholding with large Japanese trading firms continues to offer important protections to such a firm. This is in line with findings that a Japanese business that mostly profits from the Japanese market will likely continue to value traditional Japanese institutional characteristics, including a strong collaborative relationship with its business partners, and will resist short-term shareholder business customs (Jackson and Miyajima, 2007; Vogel, 2019).

On the fourth point, Japanese companies do not view foreign shareholders as a threat due to their fairly small ownership share and the fact that the ownership is often in the form of a large index fund that lacks monitoring incentives and resources (Bebchuk and Hirst, 2019; Heath *et al.*, 2020). Other researchers (Miyajima and Hoda, 2015, p. 34) have noted that the incentives and the monitoring ability of foreign shareholders with regard to Japanese companies may be limited, depending on their size and the ownership period. Further research will be necessary to explore the influence of passive ownership among foreign investors in Japan. At the same time, with increasing pressure from institutional advisors and proxy advisors (Glass Lewis, 2022; Lewis and Inagaki, 2021), it is likely that large Japanese companies' cross-shareholdings will continue to further decrease. Yet, the question of whether such a dissolution of cross-shareholdings will also lead to the dissolution of intimate ties among Japanese companies needs more research.

Regarding the fifth theme, gender equality and diversity, most IR managers mentioned that foreign shareholders have not directly pressured them about diversity or brought up the topic of gender with them. They said that their efforts in this regard reflect the Japanese government's orders to increase women managers and emphasize diversity. However, the Japanese managers I talked to also viewed an increase in women managers as being critical to increasing the share price of their firms. This confirms that gender inequality in Japan is mostly dealt with as an investor relations issue (Mun and Jun, 2017). The companies I researched added a token woman or a few female outside directors, but such moves do little to change a traditional, senior-male-dominated board structure. Furthermore, the number of women in middle management remains extremely low in most of the firms where I interviewed. Thus, as seen in previous research (Nemoto, 2016), the absence of women leaders is still a serious problem in Japanese companies. Furthermore, several managers pointed out that their CEOs do not see the IR office as an important part of the firm's management, and IR offices in Japanese firms are highly feminized, reinforcing gender stereotypes and sex segregation in the workplace (Nemoto, 2016).

My sample for this study is limited, as I interviewed only ten IR managers, and the findings from this paper are not generalizable to IR managers' views or experiences of foreign shareholders in other listed Japanese companies. Even though the small sample size is a limitation of this research, the findings from the interviews can offer insight into the complex processes of corporate governance change in Japanese companies. Further research on the impacts of foreign shareholders, especially activists, on traditional Japanese insider-dominated corporate governance is necessary. Also, the ways in which the roles of outside directors, increased CEO compensation and restructuring of businesses may increasingly change Japan's stakeholder system need to be further examined. The changing role of such global forces as institutional investors – including proxy advisors – and their impact on the gender gap in Japanese management also needs further research. Larger-scale studies of the views of both CEOs and IR managers regarding foreign investors may be helpful to grasp the complex relationships and processes of change in Japanese corporate governance.

My interviews with the managers indicated that corporate governance reform in Japan has progressed among large Japanese companies, especially in their incorporation of foreign shareholders as consultants and their adoption of a few major shareholder-based customs, such as CEOs communicating with investors, having outside directors, increasing CEO compensation and slimming down unprofitable parts of the business via restructuring and downsizing. The Japanese government, through the Corporate Governance Code and stewardship reform, seems to have played an important role in the firms' incorporation of these shareholder customs.

This research relied on the idea of institutional theory (Aguilera and Jackson, 2003: Aguilera and Jackson, 2010), which emphasizes the organizational processes and contexts by which corporate governance changes occur as a result of the interactive processes shaped by multiple actors. The Japanese government, the Tokyo Stock Exchange and the Financial Services Agency, along with foreign shareholders, have generated pressure on Japanese companies to incorporate customs of shareholder primacy. It is safe to say that Japanese managers adopted a set of shareholder primacy-based customs and incorporated foreign shareholders' advice while resisting the incorporation of core customs of shareholder primacy models. Pressure from foreign shareholders revealed tensions and contradictions between the traditional Japanese management style and shareholder primacy-based customs; Japanese companies did not choose to resolve these conflicts and tensions mostly because they did not view the foreign shareholders as threatening enough.

Japan's corporate governance system may not show immediate signs of conversion from a stakeholder model to a shareholder model; however, with continuing pressure from the Japanese government and ongoing suggestions from foreign shareholders, it may further adopt shareholder-based reforms. As these pressures continue, further research will be necessary on how traditional Japanese management customs such as a long-term profit-based business, insider-dominated governance, lifelong employment and the age-based hierarchy continue to evolve.

6. Conclusion

Building on the institutional theory perspective on corporate governance change as an interactive process among multiple stakeholders (Aguilera and Jackson, 2003, p. 449; Aguilera and Jackson, 2010, p. 530), this article examined Japanese IR managers' perceptions of foreign shareholders' influence on Japan's corporate governance reform and its stakeholder-based system. It sheds light on the organizational processes whereby foreign shareholders' suggestions and requests to Japanese management, along with Japanese government pressure, are alternately welcomed, negotiated and resisted by the managers of Japanese companies. The types of tension that were expressed by the managers largely stem from the differences in institutional customs and norms between the shareholder primacy style of governance and Japan's stakeholder-based style, especially with regard to ownership, employment relations and boards of directors. The traditional management customs that Japanese companies cling to include insider-based board membership, an age-based organizational hierarchy, an internal ladder for promotions and the maintenance of intimate ties with other companies; these customs accordingly maintain "institutional complementarities" and "institutional equilibrium" (Aoki, 2010).

Jackson and Miyajima (2007, p. 3) identified three areas of corporate governance in Japan's stakeholder system, namely, corporate ownership, employment and industrial relations and boards of directors, and this article focuses on these three areas with regard to how Japan has accommodated reforms. In reference to the first area, the ownership of foreign shareholders has greatly increased and Japan's cross-shareholdings have decreased. The Japanese firms I looked at valued foreign shareholders' advice on slimming down of businesses and business strategies to increase the value of firms. Thus, "foreign institutional investors have begun to play a governance role instead of the main bank" (Miyajima, Ogawa, and Saito, 2018, p. 19). However, if foreign investment continues to increase largely in the form of index funds, foreign investors' monitoring of Japanese firms may be quite limited (Bebchuk, Cohen, and Hirst, 2017; Miyajima and Hoda, 2015). The decrease in cross-shareholdings may not be enough to instigate critical changes to Japanese stakeholder-based customs. The question of whether more pressure from proxy advisors and institutional investors as well as the Japanese government may lead to

Japanese companies' further liquidation of cross-shareholdings and changes of ownership structure needs more research. Regarding the non-threatening role of foreign shareholders, as previous research has also found (Buchanan *et al.*, 2014), the IR managers I talked to did not view shareholders through the lens of the principal–agent hierarchy (Fama and Jensen, 1983). Rather, in my interviews, Japanese managers maintained that they accommodated foreign shareholders and outside directors as consultants to raise their stock price.

Second, regarding employment relations, at the time of the interviews, the employment customs and labor relations in Japanese companies had for the most part not changed, with the exception of an increase in CEO compensation, in a departure from the traditional egalitarian and age-based pay system. The IR managers seemed to view the increase as part of the formal response to the pressure for corporate governance change, which they did not view as being related to actual firm performance. While most of the companies where I interviewed incorporated foreign shareholders' suggestions to downsize or sell portions of their business, at the same time, they rejected the idea of excess restructuring or laying off employees. Some insisted on the importance of cross-shareholdings and intra-firm relations. Japanese manager–employee relations currently differ little from the traditional system of lifelong employment with age-based hierarchy and pay.

However, as confirmed by previous research, with further dissolution of cross-shareholdings and ownership changes, there is a possibility that "the implicit contracts that exist between Japanese corporations and their stakeholders will inevitably be broken in the face of globalizing capital markets" (Phan and Yoshikawa, 2000, p. 22). If this happens, the system of lifelong employment might become far less stable, and this situation could spur greater economic insecurity and destabilization of employment, as it has been known that the system of lifetime employment as well as seniority wages could "potentially hinder restructuring" (Jackson and Miyajima, 2007, p. 9).

Third, regarding boards of directors, the insider orientation and internal governance of Japanese companies (Buchanan *et al.*, 2014, p. 307) have been criticized as having promoted "business conservatism and empire building" (Jackson and Miyajima, 2007, p. 9). All the CEOs of the firms I interviewed, with one exception, had been promoted internally; the exception, at Firm E, came from a position at the top of the Tokyo branch of an American company. The Japanese firms I looked at were not interested in changing this type of internally oriented management. Only a couple of the managers I interviewed described outside directors as being effective with regard to corporate governance. As Buchanan *et al.* (2014, p. 307) pointed out, "external directors are generally seen as advisers on matters relating to their specific area of expertise; they are not treated as representative of outside capital"; thus, they may continue to be expected to support CEOs rather than to monitor them.

Finally, gender inequality in management positions in Japanese companies remains a serious problem (Nemoto, 2016). Pressure from the Japanese government, foreign institutional investors and proxy advisors seems to have played a large role in increasing the number of female outside directors in Japanese companies, and these companies now view the increase of women at the top as necessary to raise their firm's stock price. Yet, an increase in the number of female board members in Japanese companies does not correlate with an increase in female middle managers in the firms. Considering the fact that the absence of women leaders is rooted in the larger picture of employment and promotion in Japanese companies, foreign shareholders' pressure to increase women leaders may yet be enough to break Japan's glass ceiling (Nemoto, 2016).

Will Japanese companies continue to adopt shareholder-based customs and shift to the Anglo-American model of corporate governance, aimed at raising stock prices and enhancing economic growth? The answer may of course depend on Japan's economic recovery and growth in financial markets. Yet, further changes in the direction of a shareholder primacy model may have little effect on such growth (Samanta, 2019b). Even in the United States, the link between long-term corporate performance and the shareholder primacy model has been viewed as questionable (Vogel, 2019, p. 134). Only time and further research will tell.

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