

# Unlocking value in Japan: Governance and capital efficiency reforms & our strategic engagement

## Japan's corporate governance transformation

Japan is undergoing a significant corporate governance transformation aimed at strengthening board accountability, improving capital efficiency, and aligning with global investor expectations.

The Tokyo Stock Exchange (TSE) has increased listing requirements for Prime Market companies (companies with high market capitalization and liquidity) by requiring at least one-third independent directors and at least one female director on their boards, improving disclosure on board skills and roles, and initiating a directive to establish nomination and remuneration committees. They have also mandated reporting in both English and Japanese to improve transparency for offshore investors.

Capital efficiency has been another priority. Companies are encouraged to improve return-on-equity, address low price-to-book values, estimate their cost of capital, and reduce cross-shareholdings, a practice of affiliated companies holding stakes in one another creating complex ownership structures. This has encouraged buybacks and the optimization of overcapitalized balance sheets. We see upside to Japanese companies, should they be successful in capital efficiency programs.

## Stewardship frameworks and governance collaborations

Harris | Oakmark actively participates in initiatives to influence positive governance outcomes in Japan.

The Japanese Stewardship Code, introduced by the Financial Services Agency (FSA) and revised in 2025, encourages active investor engagement to monitor governance, strategy, and performance of Japanese companies. Harris | Oakmark adopted the [code](#) in 2019.

Additionally, Harris | Oakmark is a member of the Asian Corporate Governance Association (ACGA) and its Japan Working Group (JWG) which advocate for improved capital management, board effectiveness, and ESG practices.

## Engagement with Japanese corporates

Engagement on material topics is a fundamental component of Harris | Oakmark's investment process. While we seek to invest in companies with aligned management teams, from time to time, we may discuss strategies to drive shareholder value through corporate governance improvements. This is particularly relevant for our Japanese companies on topics such as compensation, capital allocation, board composition, operational efficiency, and reporting and transparency.

Engagement with Japanese companies involves direct meetings with management and boards of directors, and in some cases, letters to the company and utilization of proxy voting as a lever for change.

For example:

- **Transparency & governance:** At a IT consulting and services company, engagement focused on corporate communication, capital allocation, and board diversity. Management responded by enhancing its medium-term management plan and addressing organizational challenges.
- **Portfolio optimization:** At an IT services company, engagement centered on divesting certain divisions and highlighting AI capabilities. It has demonstrated progress to aligning with our recommendations.
- **Capital Allocation:** At a paint company, we recommended efficient capital deployment and cautioned against protectionist

measures like poison pills, which could harm market perception.

- **Capital discipline:** At a healthcare equipment company, we advocated for improved capital allocation and transparency. Recent mid-term plans show encouraging progress.
- **Strategic restructuring:** At a automation business, we urged divestiture of low-margin businesses. The company recently announced plans to spin off one of its businesses, a positive step toward unlocking value.
- **Operational execution:** At a human resources company, we raised concerns about cost discipline and capital allocation. The company responded with a market buyback and improved cost controls, signaling progress toward shareholder value creation.
- **Capital allocation & succession planning:** Since initiating our investment in a software solutions business, we have advocated for improved return-on-equity and board composition. Following our engagement, the company authorized a share repurchase program and began succession planning for key leadership roles.

## Related research:

### [THE VALUE OF REFORM: SOUTH KOREA'S PUSH FOR IMPROVED CORPORATE GOVERNANCE.](#)

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