

## Feature Articles

### This month's focus: **The Advanced Role of Independent Outside Directors**

#### Selection and Evaluation of Independent Outside Directors : Current Status and Issues in Japanese Companies

*Yoshiko Takayama / Makiko Miyaji*

As the number and proportion of independent outside directors continue to rise, attention from both companies and investors has increasingly focused on their quality and substantive contributions. Drawing on domestic and international experiences, this paper examines the current state and challenges faced by Japanese companies regarding (1) the extent to which nomination committees are involved in the appointment of independent outside directors, and (2) the frameworks for assessing whether independent outside directors, once appointed, effectively exercise their capabilities and make meaningful contributions. The paper further explores prospective developments in this area.

#### The Relationship between the Ratio of Independent Outside Directors and Corporate Performance

*Takuji Shimoda*

This study analyzed the relationship between the ratio of independent outside directors in Japanese companies and corporate performance before and after the Corporate Governance Code was revised again. While a negative impact was observed before the revision, the statistical significance disappeared after the revision, suggesting that the disadvantages may have been offset by the benefits. It was also found that an increase in the ratio of independent outside directors increases accounting burdens for companies with a low ratio but also improves market valuation. Furthermore, it was confirmed that reducing the number of directors does not currently have an impact on improving corporate performance.

#### Expertise Disclosure and Governance Structure: Evidence from Japanese and European Pharmaceutical Companies

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This paper examines how the expertise of independent outside directors is disclosed and how such disclosure relates to governance structures, drawing on a comparative analysis of twelve major pharmaceutical companies in Japan and Europe. In Japan, governance reforms have expanded board independence and encouraged tools such as skills matrices; however, expertise disclosures are often dispersed across multiple documents and contain redundancies, reducing their investors seeking to assess whether governance supports corporate strategy. To enable cross-company comparisons beyond firm-defined matrices, this study classifies directors' expertise using objective, career-based criteria and applies this taxonomy to six Japanese and six European firms operating within the same industry context.

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The results reveal a structural contrast in board expertise portfolios: European boards feature a higher proportion of science and medical specialists and executives with extensive pharmaceutical-industry experience, whereas Japanese boards rely more heavily on general managers and professional practitioners such as lawyers and accounting/audit specialists. Using physician directors as a focused benchmark, the paper evaluates disclosure quality across six categories using a three-tier rubric. European firms provide more specific and well-structured information—including clearly labeled expertise sections, defined domains, credentials, and externally verifiable achievements—while Japanese disclosures tend to be more abstract, framing expertise primarily in terms of broad oversight and advisory roles. These patterns are consistent with their respective governance models: Europe more clearly separates supervision from execution and often institutionalizes board-level deliberation through committees, such as science or R&D committees, whereas Japan operates a hybrid model that combines internal business knowledge with external monitoring. The paper argues that Japanese firms should move beyond merely signaling the presence of expertise. Instead, they should demonstrate its practical application by clarifying the expertise required for key issues and strengthening the linkage between value-creation narratives and verifiable facts, thereby enabling investors to trace how expertise informs decision-making and risk management.

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## Articles

### Counterfactual Analysis of Inflation Dynamics in Japan

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This paper investigates whether demand-side or supply-side factors have exerted a greater influence on inflation in Japan during the post-COVID-19 period, within a New Keynesian Phillips Curve framework. The results indicate that supply-side factors, together with inflation expectations, have played a central role in shaping Japan's post-pandemic inflation dynamics. Furthermore, while demand-side factors were relatively more important in the immediate aftermath of the pandemic, supply-side factors became increasingly influential through 2023, amplifying inflationary pressures via feedback effects with inflation expectations, as demonstrated by the counterfactual analysis. From a monetary policy perspective, these findings suggest that even when inflationary pressures originate from supply-side shocks, the subsequent rise in inflation expectations can generate persistent inflation, thereby potentially necessitating an appropriate monetary policy response.

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