

The Urgent Need to Modernize Executive Development

Nicholas E. Benes, Founder, Board Director Training Institute of Japan (BDTI)

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In 2015, the average price-to-book ratio (PBR) of companies listed on the Tokyo Stock Exchange's First Section was **1.2**. Today, the average among firms in the Prime Market is only 1.3. Because the PBR cannot fall below zero, an average of 1.3 implies that a large number of firms are valued well below 1, with many around 0.8 or even 0.6.

This means that the market believes many management teams are eroding corporate value simply by continuing to manage their companies—that the assets might actually be worth more if liquidated. Such figures clearly reveal a crisis in Japan's economy.

Behind this harsh evaluation lies a fundamental issue: Japan's process for developing its most important form of *human capital*—its executives and directors—remains ineffective. The same stagnation can be seen at middle-management levels, indicating a deep structural problem within Japanese corporations.

Lessons from Abroad: Market Mobility and Skills-Based Careers

In countries such as the United States, where the labor market is highly fluid, employees often work at multiple companies, acquiring flexibility and new methodologies shaped by differing corporate cultures. Because they must market themselves to future employers, they are strongly motivated to acquire *portable skills*—in areas such as marketing, HR, and finance—that are universally valuable.

Companies, for their part, actively encourage staff to obtain cutting-edge knowledge, frequently utilizing external training institutions. Even if employees later leave, their success enhances the firm's reputation—creating a virtuous cycle in which “graduates” attract new talent.

Promotion criteria in such systems are based on merit and performance, not age, nationality, or gender. To be promoted, one must demonstrate mastery of the knowledge and skills required by a specific role. Managers who fail to deliver results are demoted or dismissed; continuous professional development, often including external courses or night classes, is the norm.

According to a 2020 survey by the National Association of Corporate Directors (U.S.), independent directors devoted on average many hours annually to structured education—likely several times more than their Japanese counterparts.

Japan's Systemic Weaknesses: Insularity and Stagnant Learning

In Japan, however, the lifetime employment model persists. Mastery of “*our company's way of doing things*” is often valued more highly than acquiring transferrable skills. This dependence on firm-specific knowledge isolates companies from external perspectives, fostering inward-looking and conservative thinking.

While Japan's mid-career hiring market is gradually expanding, management-level recruitment remains underdeveloped. Entrenched seniority and groupism make it difficult for mid-career hires to advance, further stifling leadership renewal.

Training programs are still mostly conducted in-house, with minimal investment in the financial and strategic competencies that every executive should possess. When external training is used, firms tend to demand customized, closed programs that minimize exposure to outside viewpoints or cross-company dialogue.

Even when case studies from other firms are included, executives often cut sessions short under the belief that participants should "get back to work quickly." Consequently, objective learning benchmarks are rarely incorporated into promotion standards.

Quantitative Evidence of Underinvestment

Statistical data confirms these tendencies: Japan's spending on human resource development remains less than one-third of that of other major developed countries, as a percentage of GDP.

Deep expertise in areas like finance and strategy cannot be gained through limited training opportunities. To cultivate outstanding senior managers and directors, companies must rotate them through diverse assignments, encouraging collaboration with varied teams over many years—experiential learning that complements formal education.

However, most Japanese executives still fail to recognize the importance of foundational business knowledge and deliberate career planning. Many management training programs remain ad hoc, remedial, and short-term, rather than systematic.

Weak Incentives and Governance Gaps

Cultural factors exacerbate this situation. In Japan, the higher one rises in rank, the less likely one is to seek learning opportunities with external experts or peers. This reflects the weak external pressures surrounding directors.

Before appointment, potential board members often think, *"I'm not yet a director, so I don't need to study."* After appointment, they assume that nomination itself implies sufficient qualification. Some external directors, misunderstanding their role, see the position as "well-paid and not too time-consuming."

Because Japan has not experienced a governance scandal comparable to the Enron case—which led to long prison sentences abroad—the sense of accountability is often diluted. Yet Japan's Financial Instruments and Exchange Act contains director liability provisions as strict, or stricter, than those in the U.S. Many directors and executive officers remain unaware of these risks.

Core competencies such as finance, strategy, and scenario planning—skills that all executives and directors should share—are still lacking. The result is that Japanese leadership tends to avoid long-term strategic investment and continues producing plans that are mere extensions of the past, lacking innovation and sustainability.

What Investors Should Demand

Institutional investors rarely demand written disclosure regarding how companies train or develop executives and directors. Yet investors should request specific information:

- Who receives external training,
- How many hours they complete, and
- In which areas (governance, compliance, finance, etc.).

If a company cannot provide such data, one may reasonably conclude that essential training is not taking place. Nonetheless, most investors continue approving nearly all director candidates each year without such verification.

Pathways to Reform

Transforming a large corporate organization is not easy. However, as Hitachi has demonstrated, it is possible when management and the board share strong conviction and determination.

Alternatively, Japanese firms could acquire foreign companies rich in globally experienced executives, thereby integrating international best practices into their senior management.

To truly improve corporate performance, boards must feature a majority of independent outside directors capable of identifying and supervising reforms. A diverse board composition ensures balanced governance and merit-based human capital development.

Ultimately, enhanced governance that guarantees fair evaluation and development of human capital should be placed at the very core of efforts to raise corporate value.

Nicholas E. Benes

Born in the United States. Doctor of Law (Ph.D.) and MBA from UCLA.

Founded the **Board Director Training Institute of Japan (BDTI)** in 2009; in 2013, proposed Japan's **Corporate Governance Code (CGC)**.