2023 21st
JCGR Corporate Governance Survey
(JCGIndex Survey)
Report

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Japan Corporate Governance Research Institute

JCGR Corporate Governance Survey Report 2023

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Introduction

The corporate governance reforms pursued under Abenomics have now raised expectations for corporate governance through the capital market. Recognizing that Japanese companies are no longer at the stage of introducing corporate governance, the Japan Corporate Governance Research Institute (JCGR) started to conduct a new JCGIndex Survey in 2019. In addition, we changed the targets from companies listed on the First Section of the Tokyo Stock Exchange to those listed on the Prime Market Segment of the Tokyo Stock Exchange in 2022. This report outlines the results of the second Corporate Governance Survey (JCGIndex Survey) since the establishment of the Prime Market Segment. We are grateful to all companies that responded to this survey.

The JCGR defines the period from 2002 to 2017 as Phase I, and the 16 surveys conducted in Phase I as Phase I Surveys. Surveys conducted in or after 2019 are defined as Phase II Surveys. This time, we have narrowed down the questions with the monitoring board in mind.

1. Background and results of this survey

Within a short period, corporate governance reforms have been implemented in an unprecedent scale under the second Abe administration's new Growth Strategy. The Financial Services Agency formulated Japan's Stewardship Code in 2014 (revised in 2017); the amendment of the Companies Act in 2015 introduced company with audit and supervisory committee; and the Tokyo Stock Exchange made the Corporate Governance Code part of its Securities Listing Regulations in 2015. The reforms expect institutional investors to enhance the investee companies' corporate value and sustainable growth through "purposeful dialog" as shareholders for the sake of mid- to long-term investment return for the clients and beneficiaries. For companies, five principles are proposed based on OECD's Principles of Corporate Governance, in expectation of rational and fair corporate governance under independent directors and internationally competitive management: Securing the Rights and Equal Treatment of Shareholders, Appropriate Cooperation with Stakeholders Other Than Shareholders, Ensuring Appropriate Information Disclosure and Transparency, Responsibilities of the Board, and Dialogue with Shareholders. Even after the Abe administration, the government is pursuing the corporate governance reforms by regularly revising the Stewardship Code and the Corporate Governance Code.

These reforms apply in fact a soft-law approach of “Comply or Explain”, assuming an Anglo-Saxon rational stock market. It is questionable that the Japanese stock market is rational enough, but at any rate, corporate governance reforms are indispensable to regain Japan’s international competitiveness, and worth public interests.

Looking into the JCGIndex Survey results for 2023 from this perspective, the results presented in this paper give us the impression that the corporate governance reforms still have a long way to go. We hope that governance reforms will bring about management reforms, but it is hard to achieve the change in a short period since both governance and management are deeply tied to the society and history. Yet we have no other choice but to speedily address the drastic change the world is experiencing. The fact that hasty actions are undesirable cannot justify slowing down the reform. Investors, executives and all members of the public need to make a commitment to corporate governance.

2. Scope/period of this survey, and number of companies that responded

From September 2023 to November 2023, we surveyed all companies listed on the Prime Market Segment of the Tokyo Stock Exchange, of which 137 responded to the survey.

In Phase I, we received responses from 986 distinct companies (and a cumulative total of 3,260) throughout the surveys. The numbers of companies that responded to our survey for each year are as follows: 159 (2002), 201 (2003), 341 (2004), 405 (2005), 312 (2006), 311 (2007), 252 (2008), 215 (2009), 127 (2010), 120 (2011), 131 (2012), 120 (2013), 118 (2014), 147 (2015), 150 (2016) and 151 (2017). In Phase II, 165 companies responded to the survey in 2019, 175 in 2020, 120 in 2021, 135 in 2022 and 137 in 2023.

3. Overview of questions

3.1 Governance model for current companies

Companies have social responsibility of serving for the benefits of all stakeholders—employees, managers, customers, suppliers, creditors, shareholders, governments, and local communities to name some—because the support from these stakeholders are necessary for the companies' existence. In the framework of joint-stock company, however, companies are in reality (not by law) treated as private property of shareholders, who contribute money to the company and in turn exercise the control over the company as owners. Moreover, they take responsibility for the consequences of the business by sharing retained earnings. Retained earnings is equal to the sales minus various expenses, and therefore risky (i.e., not predetermined at all). It is shareholders who bear this risk of business.

Joint-stock companies that operate large-scale business with money contribution from a large number of shareholders assume separation of ownership and management. Although shareholders do not directly participate in management, they instead elect directors at the shareholders' meeting and entrust the management to the board of directors. In the form of electing directors who realize business execution (in another word, management) in line with shareholders’ interests, shareholders control companies. That is what governance by shareholders means. In most countries under such a system, the board of directors makes

important decisions on business, and selects CEO and other executive officers (as for Japan, executive directors are selected in companies with board of corporate auditors and companies with audit and supervisory committee, and executive officers in companies with nominating committee, etc.) to entrust business execution. In doing so, directors steer executive officers to the management in line with shareholders' interests. That is governance by board of directors, a substitution for governance by shareholders.

To ensure the effective governance by board of directors, those who are independent from executive officers and other stakeholders are selected as outside directors, who are the sole constituent of nominating committee, compensation committee and audit and supervisory committee. The nominating committee determines candidates of directors to submit to the shareholders' meeting. It plays an important role of choosing the competent directors, who as members of board of directors select (and dismiss) the CEO and executive officers. The compensation committee sets up performance-linked incentives to provide an incentive for good management to the CEO and other executive officers selected by the board. The audit and supervisory committee checks the independence of internal and external auditors to ensure impartial and effective management.

This best practice of separating governance and management by promoting good use of independent directors has spread to the world in the last quarter century. Although directors, whose duty is to monitor executive officers, used to simultaneously serve as executive officers all over the world, it is now the global understanding that directors should be separate from executive officers in order to survive fierce competitive environments of globalization and innovation. Under this model, the board of directors should be centered on independent directors and focus on governance to bring about good management from executive officers, who are selected by the board of directors and entrusted with management. Such board of directors is called "monitoring board." Executives establish the management system under the governance by board of directors to pursue profit through business operations and then distribute the profit to shareholders.

3.2 Contents and categorization of questions

The current best practice in corporate governance can be characterized by (1) board of directors where outsiders play a vital role as independent directors, (2) separation of directors and executive officers, (3) nomination, compensation, and audit functions exercised by the board of directors to supervise executive officers, and (4) transparency in management.

Based on such a model, JCGIndex Survey's questions are comprised of the following five parts. For Parts II and III, sub-scores partially reflect quantitative data (companies' executive officer composition, etc.), in addition to the questionnaire.

Part I Performance targets, leadership of CEO	10 questions
Part II Directors and board of directors	14 questions
Part III Board oversight －Nomination, compensation and audit－	11 questions
Part IV Administration of the board of directors meetings	9 questions
Part V Assessment of the effectiveness of the board of directors meetings	7 questions

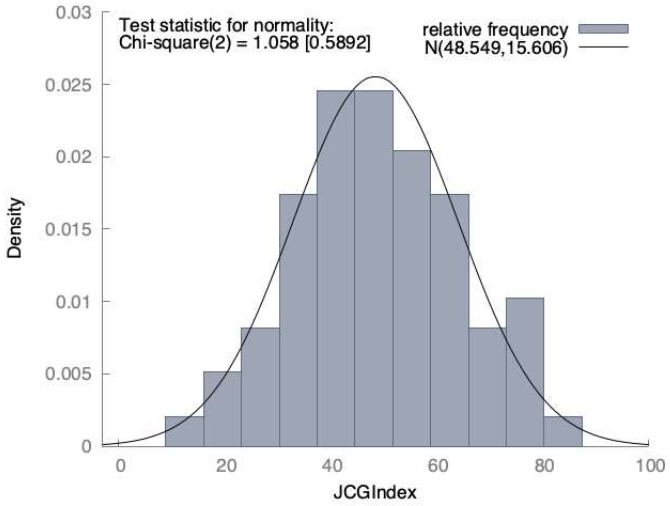
By organizing these 51 questions into Parts I through V, summing the scores for each part that is allocated a different weight as the part sub-score, and totaling these sub-scores, we calculated the JCGIndex. This time, we overhauled the entire questionnaire to better reflect the reality of Japanese companies. As a result, the number of questions was reduced from 75 in the previous survey to 51. Consequently, it is impossible to compare this year's results to previous results. Nevertheless, many companies that ranked among high JCGIndex companies in the past surveys for several times appear again in the list of high JCGIndex companies, which attests that the consistency of the JCGIndex is maintained despite the overhaul of the questionnaire.

4. Distribution of JCGIndex

The distribution of JCGIndex for the 137 companies that responded to our survey in 2023 is as the graph in the below shows. The mean JCGIndex was 48.6, and the standard deviation was 15.6. In the test of normality, the χ2 value was 1.058 and the p-value was 0.5892. Since the p-value exceeds 0.05 (5%), the null hypothesis of a normal distribution cannot be rejected. With the help of the Q-Q plot (see Addendum), we judged that the JCGIndex is assumed to be normally distributed.

Although it is a normal distribution, it can be seen from the table that the curve is slightly right-skewed (positively skewed). Furthermore, since the data for high-score companies alone deviates from normal distribution, a different distribution may exist among the companies with high JCGIndex.

Table　Distribution of JCGIndex



(Note) left: χ2 value (p-value in the parentheses); right: N (mean and standard deviation)

5. Sub-scores and achievement rates by part

To clarify the companies' performance for each part having different weight, the table below converts the mean figure into achievement rate in percentage. The

achievement rates for Parts I, IV and V are low. In particular, the figure for Part I (Performance targets, leadership of CEO) is the lowest, indicating that Japanese companies are yet to solidify corporate governance. On the other hand, the relatively high achievement rates for Part II (Directors and board of directors) and Part III (Board oversight －Nomination, compensation and audit－) imply that Japanese companies comply with the formality requirements. Nonetheless, with the low achievement rates for Part IV (Administration of the board of directors meetings) and Part V (Assessment of the effectiveness of the board of directors meetings), their corporate governance efforts can be best described as superficial.

Table Sub-scores and achievement rates by part

Part	Weight (A)	Mean (B)	Achievement rate (B) / (A)
I Performance targets, leadership of CEO	18.8	7.37	39.2%
II Directors and board of directors	24.8	13.36	53.9%
III Board oversight －Nomination, compensation and audit－	23.6	13.84	58.6%
IV Administration of the board of directors meetings	20.5	8.40	41.0%
V Assessment of the effectiveness of the board of directors meetings	12.3	5.58	45.3%
JCGIndex	100	48.55	48.6%

For reference, below is the table for the 2022 survey, which divided questions into four categories. Category I corresponds to Part I in the 2023 survey, and Category II corresponds to Parts II and III.

Reference Sub-scores and achievement rates by category (2022)

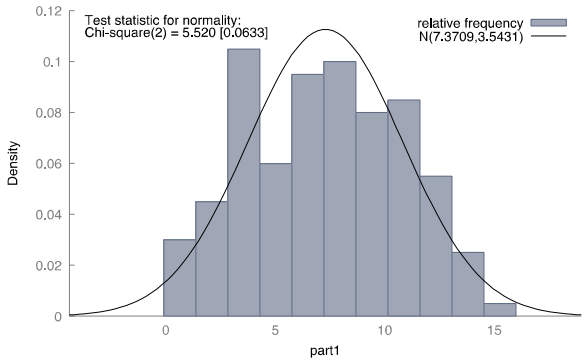
Category		Weight (A)	Mean (B)	Achievement rate (B) / (A)
I	Performance targets and leadership of management	14.1	4.4	30.6%
II	Corporate governance structure	46.3	22.9	49.5%
III	Executive management structure of top management	24.0	16.1	67.1%
IV	Communication with shareholders and transparency	15.6	10.0	64.1%
JCGIndex		100	53.3	53.3%

The JCGIndex in the 2023 survey was 48.55, lower than 53.3 in the 2022 survey, which can be because Parts IV and V in 2023 are significantly different from Categories III and IV in 2022. While Categories III and IV in the last survey covered corporate management, Parts IV and V in this survey cover corporate governance. It is evident that the JCGIndex was inflated in the previous survey by the questions on corporate management. From this time, the JCGIndex exclusively measures corporate governance.

6. Distribution of sub-scores by part

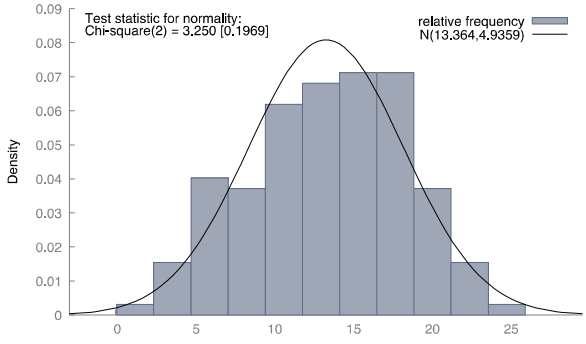
Below are tables for distribution of sub-scores for Parts I through V. These five sub-scores constitute the JCGIndex. For Parts I and II, the null hypothesis of a normal distribution cannot be rejected and, with the help of the Q-Q plot (see Addendum), we judged that the sub-scores are normally distributed. For Parts III, IV and V, since the null hypothesis can be rejected and the alternative hypothesis that the data is not normally distributed can be accepted, we judged that the sub-scores are not normally distributed.

Part I Performance targets, leadership of CEO



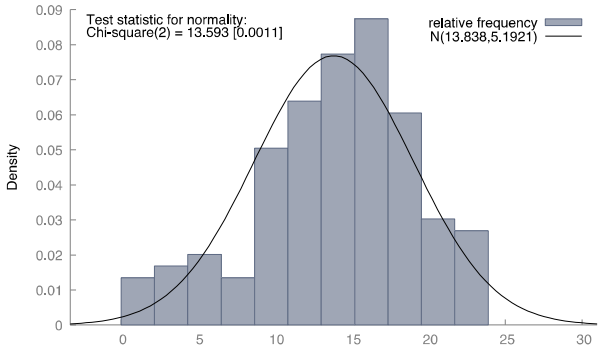
(Note) left: χ2 value (p-value in the parentheses); right: N (mean and standard deviation)

Part II Directors and board of directors



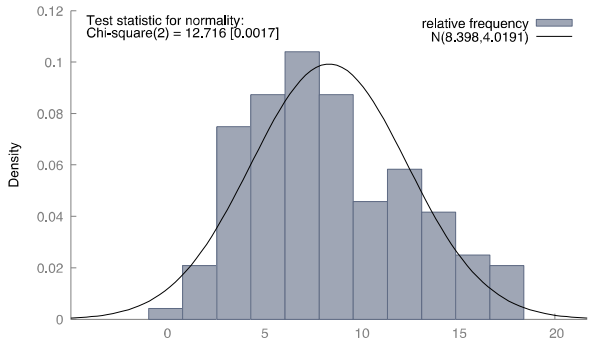
(Note) left: χ2 value (p-value in the parentheses); right: N (mean and standard deviation)

Part III Board oversight －Nomination, compensation and audit－



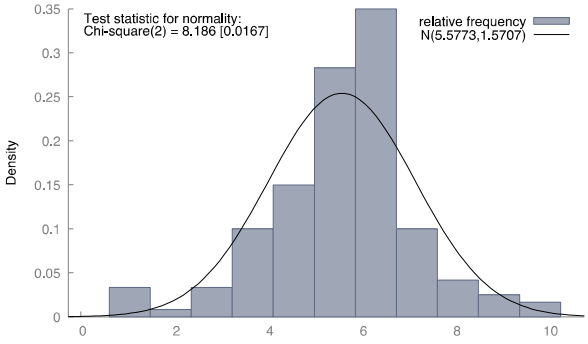
(Note) left: χ2 value (p-value in the parentheses); right: N (mean and standard deviation)

Part IV Administration of the board of directors meetings



(Note) left: χ2 value (p-value in the parentheses); right: N (mean and standard deviation)

Part V Assessment of the effectiveness of the board of directors meetings



(Note) left: χ2 value (p-value in the parentheses); right: N (mean and standard deviation)

7. Descriptive statistics values of JCGIndex and sub-scores

Descriptive statistics values of sub-scores by part and JCGIndex are as follows.

Table Descriptive statistics values of sub-scores by part and JCGIndex

	Part I	Part II	Part III	Part IV	Part V	JCGIndex
mean	7.37	13.36	13.84	8.40	5.58	48.55
median	7.31	13.78	14.41	7.52	5.64	47.18
mode	6.26	11.27	14.41	7.52	6.05	46.14
standard deviation	3.54	4.94	5.19	4.02	1.57	15.61
kurtosis	-0.83	-0.59	-0.05	-0.63	1.22	-0.46
skewness	0.11	-0.18	-0.61	0.43	-0.41	0.06
range	14.61	23.59	21.71	17.54	8.77	71.40
number of samples	137	137	137	137	137	137

The table below shows the coefficients of variation (=standard deviation/mean) for each sub-score by part and JCGIndex.

Table Coefficients of variation of sub-scores by part and JCGIndex

	Part I	Part II	Part III	Part IV	Part V	JCGIndex
Coefficient of variation	0.48	0.37	0.38	0.48	0.28	0.32

The sub-scores of Parts I and II are judged to be normally distributed, while those of Parts III, IV and V are judged to be not normally distributed. Generally, if the kurtosis is positive (Part V), the distribution is more peaked and has heavier tails than a normal distribution, and if the kurtosis is negative (Parts I, II, III and IV), the distribution is flatter and has lighter tails than a normal distribution. If the skewness is positive (Parts I and IV), the tail is on the right, and if the skewness is negative (Parts II, III and V), the tail is on the left.

It seems that sub-scores for Parts I through IV are not unimodally distributed, as the tables rather depict a bimodal distribution. In addition, taking into account that overlapping normal distributions with different means produce negative kurtosis, the distribution of each of these sub-scores may be composed of overlapping normal distributions with different means. Furthermore, judging from skewness, it is also possible that the distribution is composed of overlapping normal distributions with different variances.

More data is required to analyze whether the distribution consists of overlapping normal distributions with different means and variances, so we need to consider modifying the questions next time.

8. Correlations among sub-scores and JCGIndex

The table below shows correlation coefficients between parts and between a part and JCGIndex. While the correlations between Part I and Part V and between Part III and Part V are below 0.5, every part shows higher correlation with JCGIndex than with any other part, which means that each part does not overlap with others greatly and rather covers distinctive factors.

Table Correlations among sub-scores and JCGIndex

Correlation coefficients	Part I	Part II	Part III	Part IV	Part V	JCGIndex
Part I	1.0000					
Part II	0.5881	1.0000				
Part III	0.5129	0.6156	1.0000			
Part IV	0.5351	0.6544	0.5165	1.0000		
Part V	0.4576	0.5160	0.4623	0.5293	1.0000	
JCGIndex	0.7675	0.8750	0.8234	0.8111	0.6578	1.0000

Part II has the highest figure for correlation among the five parts, which may be because the part occupies the most weight. (JCGIndex is merely the sum of the sub-scores for the five parts.) Still, since the correlations among parts are low as the table above shows, every part represents distinctive factors of corporate governance.

9. High JCGIndex companies and low JCGIndex companies

The mean of JCGIndex is 48.55, and the standard deviation of JCGIndex is 15.61 for 2023. Mean plus a standard deviation equals to 64.16 and mean minus a standard deviation equals to 32.94. From these calculations, we define JCGIndex of 64.16 or more to be high JCGIndex, and JCGIndex of 32.94 or less to be low JCGIndex. With the actual number of high JCGIndex companies being 24 (17.52% of the total) and low JCGIndex companies 22 (16.06% of the total), the distribution of JCGIndex is skewed to the right (has a tail on the right), as the graph shows (in a normal distribution, companies above/below a standard deviation would constitute approximately 16.0% for each).

The table below exhibits the sub-scores by part and JCGIndex of the high and low JCGIndex companies. To clarify the difference of sub-scores by part and JCGIndex between high and low JCGIndex companies, the ratios of high JCGIndex companies' scores to those of low JCGIndex companies are presented at the bottom of the table. High JCGIndex companies achieve 1.85 to 3.50 times as much JCGIndex as low JCGIndex companies. The ratio of difference is especially large for Part III "Board oversight －Nomination, compensation and audit－" (3.50) and Part I "Performance targets and leadership of management" (3.00).

Table High JCGIndex companies and low JCGIndex companies

	Part 1	Part 2	Part 3	Part 4	Part 5	JCGIndex
High JCGIndex companies (24)	11.68	19.71	19.86	14.11	6.87	72.23
Intermediate JCGIndex companies (96)	7.07	13.18	14.22	7.76	5.68	47.92
Low JCGIndex companies (17)	3.90	7.22	5.67	4.81	3.72	25.33
Ratio of difference between high and low JCGIndex companies	3.00	2.73	3.50	2.93	1.85	2.85

10. Conclusion

This report reorganized the questionnaire results of the 21th Corporate Governance Survey (the fifth Phase II Survey) relevant to JCGIndex into the basic statistics and statistical distribution analysis.

Appendix：List of the companies with high JCGIndex

Although it is ideal that each company's JCGIndex is shared by society, the JCGR only discloses JCGIndex of the companies that have approved the disclosure of their JCGIndex, conceding that it might be inconvenient for some companies to disclose their JCGIndex.

Companies with high JCGIndex in the Corporate Governance Survey 2023 (24 companies)

Rank	JCGIndex	Company	Number of times the company was named as a high JCGIndex company in the past four Phase II Surveys
1	83.9	Sony Group	4
2	81.8	LIXIL	
3	79.1	Nippon Sheet Glass	4
4	78.3	Ebara Corporation	4
5	78.1	Konica Minolta	3
6	76.0	Yokogawa Electric	3
7	75.2	HOYA	
8	74.5	Sojitz	1
9	74.1	Ajinomoto	
10	73.7	Eisai	3
10	73.7	Seven & i Holdings	4
12	73.5	Omron	4
13	71.6	Kibun Foods	
14	70.8	Ichiyoshi Securities	4
15	69.7	T&D Holdings	
16	69.1	Nippon Paint Holdings	
17	68.5	Resona Holdings	4
18	68.3	JVCKENWOOD	3
19	67.2	Meiji Holdings	1
20	66.8	Toda Corporation	
21	66.0	Sumida Corporation	1
22	64.7	ICHIGO	1
22	64.7	INFRONEER Holdings	
24	64.3	Advantest	

Note: No high JCGIndex companies declined to disclose their names.

For reference, we included how many times each company was named as a high JCGIndex company in the past four Phase II Surveys. Although we overhauled the questions this time, many companies that ranked among high JCGIndex companies in the past surveys for several times appear again in the list of high JCGIndex companies, which attests that the consistency of the JCGIndex is maintained despite the overhaul of the questions.

Addendum: Normality test adopted in this survey

In this survey, normality was tested to determine whether the null hypothesis that the data is normally distributed can be rejected. If the p-value is 0.05 (5%) or less, we reject the null hypothesis and conclude that the data is not normally distributed. If the p-value is more than 0.05 and the null hypothesis cannot be rejected, we cannot determine whether the distribution is normal or not.

The distribution tables in this report feature p-values for the Doornik Hansen test, but we will also show p-values for other tests of normality. As a result of the test, the null hypothesis cannot be rejected for Part I, Part II and JCGIndex. However, for Parts III, IV and V, the null hypothesis of a normal distribution can be rejected and, therefore, non-normality is significant.

Table p-values for different tests of normality

p-values	Doornik-Hansen	Shapiro-Wilk W	Jarque-Bera
Part I	0.0633	0.0315	0.1153
Part II	0.1969	0.2554	0.2461
Part III	0.0011	0.0005	0.0153
Part IV	0.0017	0.0021	0.0391
Part V	0.0167	0.0016	0.0040
JCGIndex	0.5892	0.6184	0.4831

The shaded p-values reject the null hypothesis and accept the alternative hypothesis that the data is not normally distributed.

Q-Q plot

A Q-Q plot is a graph that visualizes whether data is normally distributed. Its vertical axis represents the data values and its horizontal axis shows the theoretical values of the normal distribution. If the dots line up in a straight line, the data is considered to be normally distributed. Data points deviating from the straight line indicate the presence of outliers.