Summary of Practical Guidelines for Corporate Governance System (CGS Guidelines)

Importance of Corporate Governance

As companies are trying to achieve sustainable growth and to improve corporate values from a medium- to long-term perspective, the importance of corporate management based on ESG (Environment, Society, and Governance) is rapidly gaining in importance, and, above all, governance is key.

Issues discussed and Company Approaches

- When trying to improve corporate value, each company faces various issues related to corporate governance.

Examples:

- **Insufficient review of the business portfolio and/or no clear strategy.** Resources are wastefully allocated to non-core business or business that should be discontinued.
- **Decision-making takes up a lot of time** as a result of vague decision criteria or extremely high priority on internal consensus.
- There are no opportunities to discuss future management strategies responding to changing circumstances such as the Fourth Industrial Revolution.
- Most CEOs have not gained any management experience at other companies. This causes difficulties when conducting multifaceted reviews that are based on different values and ideas.
- People do not realize that through governance reform, corporate value can be improved. This results in superficial compliance with the Corporate Governance Code.
- It is not clear which qualities are required for CEOs and other management members, or how to train their successors.
- **Aside from the CEO or management members, there are people who have influence on the management,** and this hinders decisive decision-making.

For companies, it is meaningless to deal with corporate governance in a purely formal sense. As it is important to address corporate governance reforms aiming to solve such issues mentioned above, each company's approach will be different.

Concept of Discussion in the CGS Guidelines

The CEO and company leadership play central roles in, and management strategy are necessary for, improving corporate value. It is important to discuss strategic planning at board of directors’ meetings, based on the viewpoint and knowledge of independent members or third-parties.

Also, it is essential for all companies to choose qualified CEOs and management members, to give them appropriate incentives and to check the achievements.

CGS Guideline’s Recommendations

Each company should discuss the following:

1. **Strengthening management and supervisory functions of the board of directors which have been largely superficial to date**
   - Discussion and choice of medium- to long-term management strategy and succession plan for top management.
   - The board of directors should take care of the most relevant topics and delegate other topics to executive members such as CEOs.

2. **Not the number of outside directors, but rather their characteristics, such as management experience, should be emphasized**
   - First the qualities and roles required for outside directors should be determined, and then they should be selected, not the other way around.
   - At least one of the outside directors should be an experienced business manager (experienced managers are encouraged to actively undertake the roles of outside directors in other companies).
   - Disclosure of the activities of outside directors is recommended. Offering compensation to raise incentives for outside directors in order to improve medium- to long-term corporate value would be a possibility.

3. **Increasing objectivity and systematization of personnel decisions concerning management positions**
   - Clarify the criteria and processes regarding appointment, dismissal, evaluation and compensation of CEO and management members.
   - Establish and utilize nominating and compensation committees, that are mainly consisting of independent members (the majority are independent, or the chair is independent, if half of the members are independent) that are setting criteria and are organizing the processes.
   - Planning and implementation of a training and selection program for executive candidates.

4. **Developing an environment to strengthen the leadership of CEOs**
   - Effective top-down decision-making by CEOs regarding each division (business sectors, overseas / regional branch, etc.) through strengthening the functions of the board of directors.
   - When retired CEOs take office as advisors or consultants, first, their role and treatment should be clarified.
   - Active disclosure of information regarding current treatment of former CEOs.