

# Corporate Governance Guidance for Enhancement of Earning Power: Overview

Main Target: Companies Constituting the TOPIX 500

**Objective:** To support companies in engaging in corporate governance initiatives aimed at enhancing their “Growth Power”\*.

\*This refers to the improvement of medium- to long-term and sustainable profitability and capital efficiency.

**Note:** The guidance shows examples of CG initiatives aimed at enhancing “Growth Power”, and **it does not require uniform implementation of the initiatives described.**

## ■ Summary of the Concept of CG

### Corporate Management Aimed at Enhancement of “Growth Power”

- ✓ It is important to **develop and execute a value creation story\*** that builds on the company's competitive advantages.

\*A story towards the realization of long-term vision, regarding the enhancement of long-term corporate value through establishment of the business model and the resolution of societal challenges.

### << Specific Actions>>

1. **Executing business portfolio strategy and investment for growth.**
2. **Establishing effective CG systems that support the CEO along with the management team**, in developing and executing the value creation story.
3. **Engaging in dialogue with shareholders and investors** to develop the value creation story, build trust and foster future expectations.

(Excerpt of a Key Message)

### Five Principles for Board of Directors to Enhance “Growth Power”

- ✓ On a regular basis, the board of directors and the CEO along with the management team, are encouraged to act with these principles:

**Principle 1:** Development of Value Creation Story

**Principle 2:** Promotion of Appropriate Risk-Taking by the Management Team

**Principle 3:** Promotion of Medium- to Long-term Oriented Management

**Principle 4:** Ensuring an Appropriate Decision-Making Process and Structure

**Principle 5:** Ensuring Effectiveness in Nomination and Compensation

### Understanding CG for Enhancement of “Growth Power”

- ✓ A foundation for making transparent, fair, and timely, decisive decisions
- ✓ While ensuring the rationality and transparency of the decision-making process, it grants discretion and responsibility to the management

### Overall Picture of CG Initiatives

- ✓ Initiatives for enhancing “Growth Power” through CG

1. Establishing **a board** supports the CEO and the management team in executing operations.
2. Organize **a robust management team** capable of developing and pursuing the value creation story.
3. Developing **a way to evaluate and assess** the effectiveness and sustainability of CG.

- ✓ Relationship between the **value creation story and CG**

- It is crucial to establish CG systems where overall mechanisms function effectively, composed of **the development of a value creation story, the execution of business operations to realize that story, and the evaluation and assessment processes.**

- ✓ Actions for companies to gain earnings

- **Properly reflecting the voices of shareholders and investors:** Refining the value creation story, building trust, and fostering future expectations.
- **Concentrating management resources on core businesses and investment expected to grow in the future, considering the future business model** and the corresponding **business portfolio.**

- ✓ Approach to engaging in CG initiatives for enhancing “Growth Power”

- It is important to thoroughly **discuss the CG systems for each company** and establish effective structures and systems under **a consistent framework**, to ensure that **the board of directors and the management team fulfill their respective roles and function effectively in a balanced manner.**

## ■ Consideration of CG Initiatives of each Company

### Consideration of the CG Systems for each Company

- ✓ Presenting key **discussion points and examples of initiatives** which help discussions in each company
- Clarification of **the roles of CG and allotment of such roles.**
- **A common understanding among all directors and the CEO along with the management team.**
- Selection of **the form of corporate organization.**

### Consideration of CG Structures and Systems

- ✓ Identify the structures and systems that are considered particularly important from the perspective of enhancing “Growth Power” and present key discussion points and examples of initiatives which help discussions in each company.
- **The Board of directors** (building agendas, fostering active discussions, delegating authority to the management team, evaluations of the board effectiveness (including that of individual directors))
- **Nomination committee** (CEO succession planning, and determination as to whether the CEO should be reappointed (including CEO evaluation))
- **Compensation committee** (the structure of the committee and compensation policies).
- **Management team including the CEO** (the structure of executive team such as, the system and structure of the management meeting, and selection and training of executive candidates).
- **Secretariat of the board** (the structure and system of the secretariat of the board).