

The GR Scores 2021

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Abstract

Nikko Research Center Inc. has developed the Governance Research Scores (GR Scores) and has been evaluating the robustness of Japanese companies' corporate governance since 2017. The GR Scores evaluate the corporate governance initiatives of 109 major Japanese companies by benchmarking them against the two standards, Japan's Corporate Governance Code as the domestic standard, and the ICGN Global Governance Principles as the global one. This report provides an overview of the GR Scores 2021 as of the end of 2020, following the last year.

The overall domestic score average was 55.9%, up 1.7 points from the previous year. The main factors of the rise include the increased disclosures of sustainability risks such as environmental and social risks, the increase in the companies having three or more independent directors and their proportion in the board of directors is one-third or more, the increased disclosures of skill maps on the diversity of the board, the increase in the establishments of remuneration committee, and the increase in the companies with a remuneration committee comprised of a majority of independent directors. The improvements were found in the areas that seem to go ahead of Japan's Corporate Governance Code revisions published in June 2021.

On the other hand, the absolute level of overall global score average was low at 27.3%, though it rose 1.8 points on average from the previous year. The main factors of the rise include the increase in the companies that set a remuneration policy as one of the roles of the remuneration committee, the increase in the companies disclosing the measures to avoid bribery or misconduct, the increased training for directors and employees on the Code of Conduct, the increased disclosures of indexes regarding the diversity of the board, and the enhanced independence following the revision of independence criteria by the Tokyo Stock Exchange in February 2020.

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1. Introduction

Nikko Research Center Inc. has developed the Governance Research Scores (GR Scores) and has evaluated the robustness of Japanese companies' corporate governance annually since 2017. Following the GR Scores 2017 (Terayama and Sugiura (2018a)), the GR Scores 2018 (Terayama and Sugiura (2018b)), the GR Scores 2019 (Terayama and Sugiura (2019)), and the GR Scores 2020 (Nikko Research Center (2020)), the GR Scores 2021 evaluated the 109 listed Japanese companies based on the information as of the end of December 2020.

The evaluation carried out in the GR Scores 2021 uses the same evaluation items as the GR Scores 2020, which is based on the standard before Japan's Corporate Governance Code revisions in June 2021. The following sections describe the status of overall scores of the GR Scores 2021, the shift in overall scores for the past five years, and the scores by theme.

2. The GR Scores 2021 Summary

2.1 Evaluation Method of the GR Scores

The GR Scores 2021 evaluates the initiatives for governance taken at the 109 Japanese companies by Japan's Corporate Governance Code as a benchmark for domestic standard (see Appendix A for companies evaluated.) The Scores also adopt the ICGN Global Governance Principles as a benchmark for global standard. The GR Scores 2021 evaluates the information disclosed by the end of December 2020. Therefore, Japan's Corporate Governance Code before the 2021 revisions is referenced as the domestic standard.

Figure 1 The No. of Evaluation Items by Theme for the GR Scores 2021

Themes	Definition	# of evaluation items	
		Domestic (35)	Global (36)
Board role and responsibilities	The policies governing the roles and responsibilities of the board, directorship and shareholder engagements.	6	2
Leadership and independence	The effectiveness of monitoring the performance of the CEO by the board.	7	5
Composition and appointment	The policies governing the board structure and the process of nominating the board of directors	7	6
Corporate culture	The approach to corporate culture, including ethical perspectives and compliance for directors, managers, and employees.	2	3
Risk oversight	The approach of the board of directors to risk oversight.	0	3
Remuneration	Policies and processes concerning remuneration.	3	6
Reporting and audit	Reporting and auditing policies, financial statements, internal control reports and CSR reports.	2	4
Shareholder meetings	Policies concerning shareholder meetings and voting agenda.	2	2
Shareholder rights	Policies concerning shareholders rights and protection of minority shareholders.	6	5

Source: Prepared by Nikko Research Center

The numbers of evaluation items are 35 and 36 for domestic and global standards, respectively. Each can be classified into nine themes, which are: "Board role and responsibilities," "Leadership and independence," "Composition and appointment," "Corporate culture," "Risk oversight," "Remuneration," "Reporting and audit," "Shareholder meetings," and "Shareholder rights" (see Figure 1.) Note, however, that the domestic standard are based on Japan's Corporate Governance Code before the June 2021 revision which covers eight themes other than "Risk oversight."

Each evaluation item has three or two scales of its own, allocating one point for Level 3, 0.5 points for Level 2, and zero for Level 1. Upon summing up these points, the GR Scores translates them into percentages. Please refer to Appendix B for specific evaluation items.

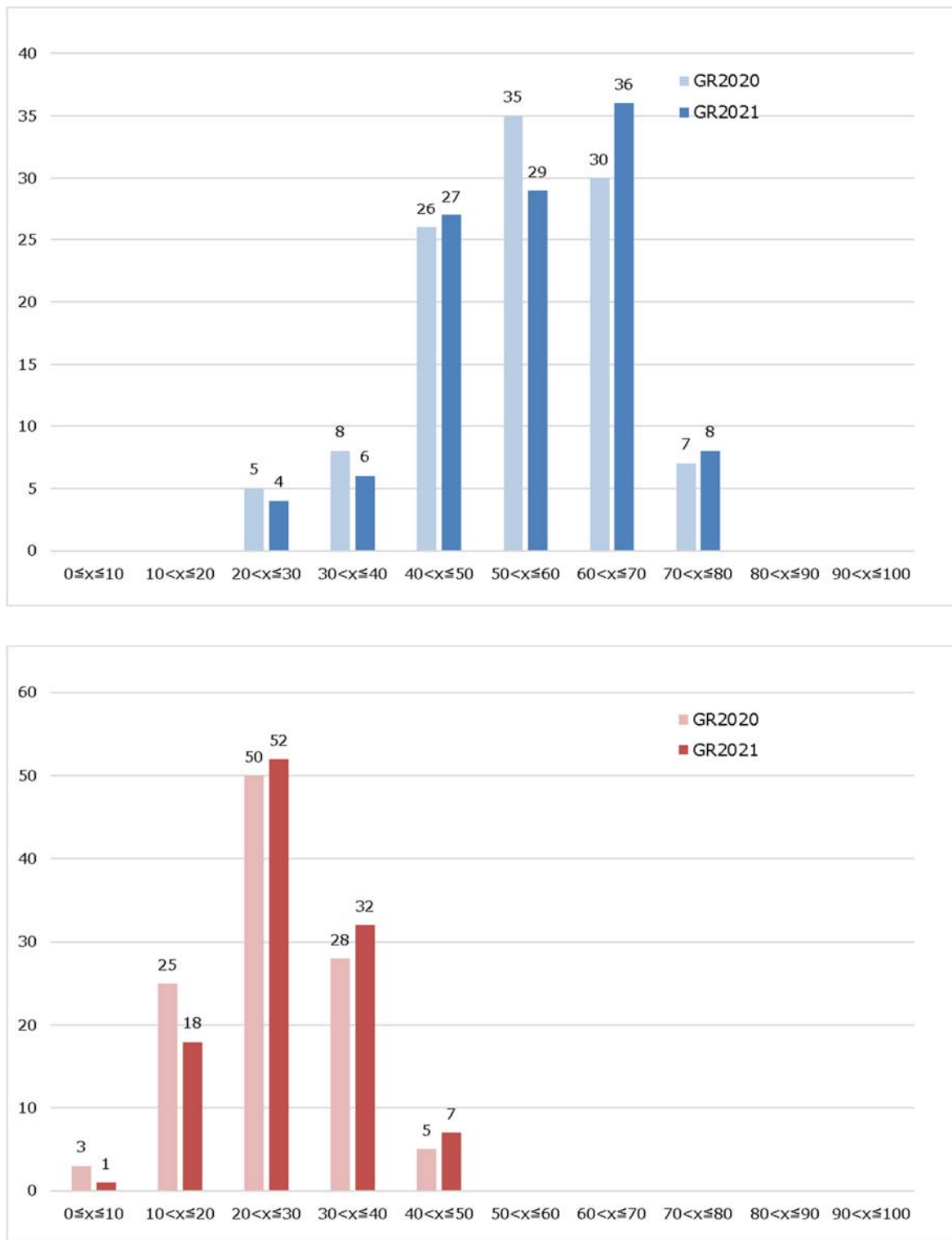
3. The GR Scores 2021 Status

3.1 Overall GR Scores 2021 Status

The average overall score by domestic standard was 55.9%, up 1.7 points from the last year's average of 54.2%, with the highest of 80% and the lowest of 24%. As the histograms show, the scores by domestic standard (upper part of Figure 2) were mostly distributed to the range of "50<x≤60" in the GR Scores 2020, while the top range moves to "60<x≤70," followed by the ranges of "50<x≤60" and "40<x≤50" in the GR Scores 2021.

Then, by the global standard, the average overall score was 27.3%, up 1.8 points from the last year's average of 25.5%, with the highest of 47% and the lowest of 6%. As the histograms show, the scores by global standard (lower part of Figure 2) were mostly distributed in the ranges of " $30 < x \leq 40$ " and " $10 < x \leq 20$," with " $20 < x \leq 30$ " at the top both in GR Scores 2020 and GR Scores 2021. However, it is confirmed that slightly more companies are in the higher ranges in the GR Scores 2021 compared to the GR Scores 2020.

Figure 2 The Distribution of the GR Scores for the Past Two Years
 (Upper Figure: Domestic Standard, Lower Figure: Global Standard)



Source: Prepared by Nikko Research Center

Figure 3 shows the top-ranked companies and their points of overall scores by domestic and global standards. By domestic standard, the top 10 ranked companies include Sumitomo Mitsui Trust Holdings (80%), Eisai (79 %), and Mitsubishi Heavy Industries (79%). The six companies highlighted in Figure 3 are ranked higher than the last year. Bridgestone's score had increased by 10 points from 64% last year.

Meanwhile, the top-ranked companies by the global standard include Mitsubishi UFJ Financial Group (47%), Nomura Holdings (47%), and Eisai (44%). Among the top-ranked companies, six companies' rankings have risen from the last year, of which four companies are financial institutions. They include Mitsubishi UFJ Financial Group (from 43% to 47%), Nomura Holdings (from 43% to 47%), Mizuho Financial Group (from 40% to 44%), and Sumitomo Mitsui Trust Holdings (from 40% to 43%).

Main factors contributing to the rise in scores of financial institutions, for example, at Mitsubishi UFJ Financial Group, include establishing the term of office for non-executive directors, the strengthened risk management oversight by the Board, and the enhanced disclosure of non-financial information such as ESG materiality. In addition, at Nomura Holdings, the reinforced separation of management execution and oversight by appointing an independent outside director as a chairman of the board of directors and clarifying the roles of the board's chairman have contributed to the rise in the score.

Six companies that are ranked within the top 10 both by domestic and global standards are: Sumitomo Mitsui Trust Holdings, Eisai, Mitsubishi Heavy Industries, Toshiba, Sony, and Mitsubishi UFJ Financial Group (shown in bold in Figure 3.)

Figure 3 Top 10 Ranked Companies and Their Overall Scores

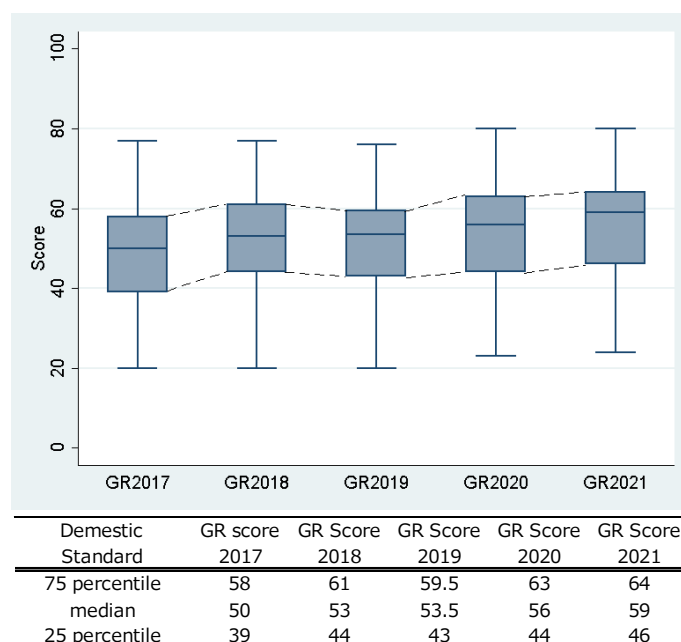
Code	Company Name	Domestic		Code	Company Name	Global	
		Score	Rank			Score	Rank
8309	SUMITOMO MITSUI TRUST HOLDINGS	80	1	8306	mitsubishi UFJ FINANCIAL	47	1
4523	EISAI	79	2	8604	NOMURA HOLDINGS	47	1
7011	MITSUBISHI HEAVY INDUSTRIES,	79	2	4523	EISAI	44	3
6502	TOSHIBA	76	4	8411	MIZUHO FINANCIAL GROUP,	44	3
5020	JXTG HOLDINGS,	74	5	7733	OLYMPUS	43	5
5108	BRIDGESTONE	74	5	8309	SUMITOMO MITSUI TRUST HOLDINGS	43	5
8725	MS&AD INSURANCE GROUP HOLDINGS	74	5	7181	JAPAN POST INSURANCE	42	7
4543	TERUMO	71	8	4502	TAKEDA PHARMACEUTICAL	40	8
1878	DAITO TRUST CONSTRUCTION	70	9	6502	TOSHIBA	39	9
1928	SEKISUI HOUSE	70	9	6758	SONY	39	9
2502	ASAHI GROUP HOLDINGS,	70	9	7011	MITSUBISHI HEAVY INDUSTRIES,	39	9
6758	SONY	70	9				
8306	MITSUBISHI UFJ FINANCIAL	70	9				

Source: Prepared by Nikko Research Center

3.2 Shift in Overall Scores for the Past Five Years

Figure 4 shows the boxplots on the overall scores by domestic standard and each of their quantiles. By domestic standard from 2017 through 2021, the median increased 9 points from 50 to 59, six points from 58 to 64 in top-ranked scores (top quantile,) and seven points from 39 to 46 in bottom-ranked scores (bottom quantile.) It indicates that the responses to Japan’s Corporate Governance Code have progressed in all quantiles throughout five years.

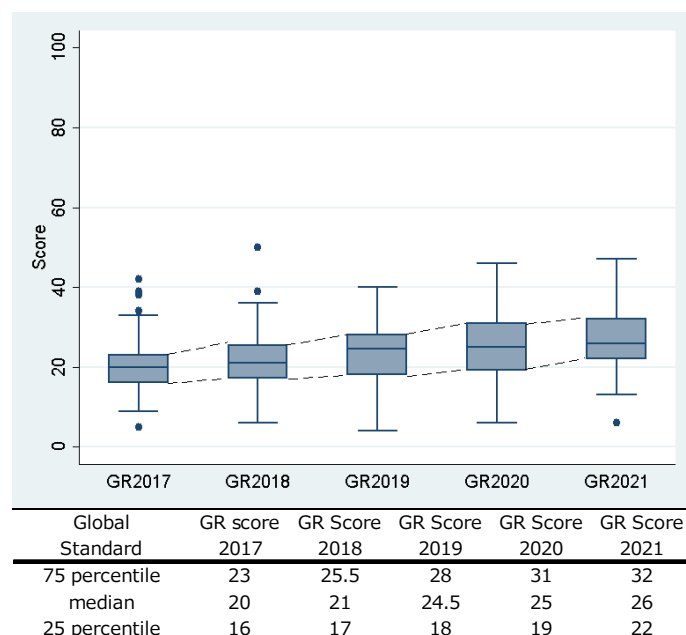
Figure 4 Shift in Overall Score Distributions by Domestic Standard



Source: Prepared by Nikko Research Center

Meanwhile, by the global standard from 2017 through 2021, the median increased six points from 20 to 26, nine points from 23 to 32 in top-ranked scores, and six points from 16 to 22 in bottom-ranked scores (see Figure 5.) Until the previous evaluation, the scores were polarized between the top-ranked and bottom-ranked scores, but in the GR Scores 2021, the bottom-ranked scores have increased, contributing to the score improvement.

Figure 5 Shift in Overall Score Distributions by Global Standard



Source: Prepared by Nikko Research Center

3.3 The GR Scores 2021 by Theme

In this section, we confirm the status of the GR Scores 2021 by theme (see Figure 6.)

By domestic standard, "Remuneration (83.1)," "Shareholder meetings (77.8)," and "Reporting and audit (74.1)" obtained relatively high scores, while "Leadership and independence (38.9)," "Board role and responsibilities (46.0)," and "Corporate culture (49.8)" obtained relatively low scores. Comparing the GR Scores 2021 with the GR Scores 2020, "Reporting and audit (up 4.3 points)," "Composition and appointment (up 3.5 points)," and "Remuneration (up 2.6 points)" have increased. The factor contributing to the higher score of "Reporting and audit" is an increase in the number of companies disclosing sustainability risks such as environmental and social risks from 65 to 78. For "Composition and appointment," the factors that contributed to the higher score include the fact that the number of the companies having three or more independent directors and comprising one-third or more of the board increased from 73 to 87, and the companies disclosing skill maps on the diversity of the board increased from 15 to 29. Regarding "Remuneration," we believe that the increase in the number of companies having established remuneration committees from 99 to 101, and increase in the number of companies with their remuneration committee comprised of a majority of independent directors from 65 to 69 contributed to the higher score.

Conversely, the score of "Shareholder meetings" has declined by 4 points from the previous assessment. In the background of this decrease is the delayed notices of convening

shareholders meetings amid the coronavirus catastrophe have led to 17 more companies having less than three weeks by the time of exercising voting rights.

Figure 6 Domestic Standard Sub-scores by Theme and their Contribution to Overall Scores

Domestic Standard	# of Samples	mean	standard error	Min	Max	Subtracting from GR 2020	Subtracting from GR 2017
Remuneration	109	83.1	19.0	0	100	2.6	51.3
Shareholder meetings	109	77.8	19.3	50	100	-4.0	-9.2
Reporting and audit	109	74.1	27.8	0	100	4.3	6.6
Composition and appointment	109	62.5	17.5	7	100	3.5	6.3
Overall	109	55.9	12.3	24	80	1.7	7.5
Shareholder rights	109	53.1	14.0	17	83	2.0	-1.1
Corporate culture	109	49.8	29.0	0	100	1.8	2.8
Board role and responsibilities	109	46.0	18.1	17	83	0.0	4.0
Leadership and independence	109	38.9	16.5	14	79	1.8	2.1

Source: Prepared by Nikko Research Center

Then, as shown in Figure 7, sub-scores by theme based on the global standard indicate that "Shareholder meetings (79.6)" obtained a high score, while "Risk oversight (9.8)" and "Leadership and independence (16.9)" obtained low scores.

Compared to the GR Scores 2020, scores of "Remuneration (up 2.8 points)," "Corporate culture (up 2.7 points)," "Composition and appointment (up 2.7 points)," and "Leadership and independence (up 2.6 points)" have increased. The factor contributing to the higher "Remuneration" score is the increase in the number of companies that set a remuneration policy as one of the roles of remuneration committee from 56 to 67. As for "Corporate Culture," the contributing factors include comprehensively strengthened initiatives such as the increase in the number of companies disclosing the measures to avoid bribery or misconduct from 37 to 42 and the increase in the number of companies providing training for directors and employees on the Code of Conduct from 74 to 78. As for "Composition and appointment," the number of companies that indexed the status of the board diversity has increased from 22 to 31, leading to the rise of the score. In terms of "Leadership and independence," the TSE's independence criteria were revised in February 2020 to enhance the independence of directors, stipulating "the blank period as a management member of the parent company or fellow subsidiaries within ten years prior to the appointment."

Figure 7 Global Standard Sub-scores by Theme and their Contribution to Overall Scores

Domestic Standard	# of Samples	mean	standard error	Min	Max	Subtracting from GR 2020	Subtracting from GR 2017
Shareholder meetings	109	79.6	10.3	50	100	-1.3	1.1
Reporting and audit	109	29.0	9.2	13	63	2.2	-2.2
Shareholder rights	109	28.6	8.1	0	70	-0.4	1.2
Composition and appointment	109	27.5	14.8	8	75	2.7	9.3
Overall	109	27.3	8.0	6	47	1.8	6.4
Board role and responsibilities	109	26.8	26.1	0	75	-0.4	5.8
Remuneration	109	26.2	14.7	0	75	2.8	22.1
Corporate culture	109	25.3	17.4	0	83	2.7	5.0
Leadership and independence	109	16.9	16.7	0	70	2.6	4.3
Risk oversight	109	9.8	20.0	0	100	2.0	2.8

Source: Prepared by Nikko Research Center

4. Conclusion

This paper confirmed the GR Scores status of the 109 domestic listed companies using Japan's Corporate Governance Code and ICGN Global Governance Principles as benchmarks. The governance has been improving by domestic standards since the launch of score measurement in 2017. Especially in the GR Scores 2021, enhanced disclosure on sustainability, strengthened independence of the board of directors, enhanced skill maps, and strengthened monitoring of management remuneration are confirmed. This time, the improvements were found in the areas that seem to go ahead of Japan's Corporate Governance Code revisions published in June 2021. Conversely, some companies have delayed the distribution of notices convening shareholders meetings amid the coronavirus catastrophe.

In terms of the global standard, the scores are low compared to those benchmarked against the domestic standard, although they have improved slightly from the last year. The factors contributing to the score improvements include enhanced disclosures on the role of the Remuneration Committee, as well as on the diversity of the Board of Directors, increased disclosures related to bribery, and strengthened independence following the revision of the TSE's independence criteria. In addition, it was confirmed that in the higher score range, the scores of the financial institutions have risen. It is mainly due to the improved independence of the board of directors and the increased disclosures on sustainability. On the other hand, the assessment confirmed that improvement in risk oversight has not progressed.

[Reference]

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Appendix (A) List of 109 Domestic Companies Covered by the GR Scores 2021

Securities code	Company Name	Securities code	Company Name
1605	INPEX	6902	DENSO
1878	DAITO TRUST CONSTRUCTION	6954	FANUC
1925	DAIWA HOUSE INDUSTRY	6971	KYOCERA
1928	SEKISUI HOUSE	6981	MURATA MANUFACTURING
2267	YAKULT HONSHA	6988	NITTO DENKO
2269	MEIJI HOLDINGS	7011	mitsubishi heavy industries,
2502	ASAHI GROUP HOLDINGS,	7181	JAPAN POST INSURANCE
2503	KIRIN HOLDINGS	7182	JAPAN POST BANK
2587	SUNTORY BEVERAGE & FOOD	7201	NISSAN MOTOR
2802	AJINOMOTO	7203	TOYOTA MOTOR
2914	JAPAN TOBACCO	7259	AISIN SEIKI
3382	SEVEN & I HOLDINGS	7267	HONDA MOTOR
3402	TORAY INDUSTRIES,	7269	SUZUKI MOTOR
3407	ASAHI KASEI	7270	SUBARU
4063	SHIN-ETSU CHEMICAL	7309	SHIMANO
4188	MITSUBISHI CHEMICAL HOLDINGS	7733	OLYMPUS
4324	DENTSU	7741	HOYA
4452	KAO	7751	CANON
4502	TAKEDA PHARMACEUTICAL	7974	NINTENDO
4503	ASTELLAS PHARMA	8001	ITOCHU
4507	SHIONOGI	8031	MITSUI
4519	CHUGAI PHARMACEUTICAL	8035	TOKYO ELECTRON
4523	EISAI	8053	SUMITOMO
4528	ONO PHARMACEUTICAL	8058	MITSUBISHI
4543	TERUMO	8113	UNICHARM
4568	DAIICHI SANKYO	8267	AEON
4578	OTSUKA HOLDINGS	8306	MITSUBISHI UFJ FINANCIAL
4661	ORIENTAL LAND	8309	SUMITOMO MITSUI TRUST HOLDINGS
4689	Z HOLDINGS	8316	SUMITOMO MITSUI FINANCIAL GROUP
4755	RAKUTEN,	8411	MIZUHO FINANCIAL GROUP,
4901	FUJIFILM HOLDINGS	8591	ORIX
4911	SHISEIDO	8604	NOMURA HOLDINGS
5020	JXTG HOLDINGS,	8630	SOMPO HOLDINGS,
5108	BRIDGESTONE	8725	MS&AD INSURANCE GROUP HOLDINGS
5401	NIPPON STEEL	8750	DAI-ICHI LIFE HOLDINGS,
5411	JFE HOLDINGS,	8766	TOKIO MARINE HOLDINGS,
5802	SUMITOMO ELECTRIC INDUSTRIES,	8801	MITSUI FUDOSAN
6098	RECRUIT HOLDINGS	8802	MITSUBISHI ESTATE
6178	JAPAN POST HOLDINGS	8830	SUMITOMO REALTY & DEVELOPMENT
6201	TOYOTA INDUSTRIES	9020	EAST JAPAN RAILWAY
6273	SMC	9021	WEST JAPAN RAILWAY
6301	KOMATSU	9022	CENTRAL JAPAN RAILWAY
6326	KUBOTA	9201	JAPAN AIRLINES
6367	DAIKIN INDUSTRIES,	9202	ANA HOLDINGS INC.
6501	HITACHI,	9432	NIPPON TELEGRAPH & TELEPHONE
6502	TOSHIBA	9433	KDDI
6503	MITSUBISHI ELECTRIC	9434	SOFTBANK
6594	NIDEC CORPORATION	9503	KANSAI ELECTRIC POWER
6702	FUJITSU	9531	TOKYO GAS
6723	RENEAS ELECTRONICS	9613	NTT DATA
6752	PANASONIC	9735	SECOM
6753	SHARP	9843	NITORI HOLDINGS
6758	SONY	9983	FAST RETAILING
6861	KEYENCE	9984	SOFTBANK GROUP CORP.
6869	SYSMEX		

Source: Prepared by Nikko Research Center

Appendix (B) The Evaluation Items of the GR Scores 2021

No	Themes	Evaluation items	Domestic	Global
1	Board role and responsibilities	The role and responsibilities of the board	○	○
2		Multiple directorships	○	○
3		Voting results	○	-
4		Shareholder engagement: opponents	○	-
5		Shareholder engagement: policies	○	-
6		Shareholder engagement: agendas	○	-
7	Leadership and independence	Board independence	○	○
8		Lead independent director	○	○
9		Effectiveness of the board	○	○
10		Criteria for independence	○	○
11		Regular meetings consisting solely of independent directors	○	○
12		The role and responsibilities of independent directors	○	-
13	Composition and appointment	Committees or advisory committees	○	-
14		Board composition	○	○
15		Board diversity	○	○
16		Director tenure	-	○
17		Directors nomination process	○	○
18		Board evaluations	○	○
19	Corporate culture	Nomination committee	○	○
20		CEO succession planning	○	-
21		Bribery and corruption	-	○
22		Whistleblowing	○	○
23		Code of conduct	○	○
24		Risk oversight	Proactive oversight	-
25	Remuneration	Risk culture	-	○
26		Risk committee	-	○
27		Alignment with performance	○	○
28		Executive directors' long-term incentive plan		○
29		Remuneration reporting		○
30		Business results and potential risks	○	○
31	Reporting and audit	Remuneration of NEDs	-	○
32		Remuneration committee	○	○
33		Non-financial information	○	○
34		Audit committee	-	○
35		Audit location	-	○
36		Shareholder approval of auditor appointment	-	○
37	Shareholder meetings	Proxy statement	○	○
38		Voting procedures	○	○
39	Shareholder rights	Equality and redress	○	○
40		Anti-takeover defense	○	○
41		Equity capital	○	○
42		Conflict of interests	-	○
43		Related party transactions	○	○
44		Cross-shareholdings: disclosure of the cross-shareholdings policies	○	-
45	Composition and appointment	Cross-shareholdings: Preventing from selling cross-shares	○	-
46		CEO dismissal	○	-

Source: Prepared by Nikko Research Center