

Toward Corporate Governance for Sustainable Growth (Overview)

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Keidanren (Japan Business Federation)

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Overview of the Position Paper

- Over nearly a decade of corporate governance reforms in Japan, Japanese companies have made steady progress in their initiatives.
- It is critically important to achieve sustainable growth in Japan by shifting corporate management mindsets toward an investment-led approach and by having shareholders and investors actively evaluate such corporate initiatives.
- The initiatives required of each player in the investment chain, as well as of the government, are as follows.

Investment Chain

Companies(Business Corporations)

- Promote bold investments that contribute to medium- to long-term value creation, rather than cost-cutting measures or short-term share buybacks
- Clarify the company's purpose and long-term growth direction as a value-creation scenario from both economic and social value perspectives
- Clarify basic policies and priorities for the allocation of management resources toward growth, which lie at the core of management decision-making
- Proactively advance corporate governance reforms that support growth-oriented investment, including effective oversight by the board of directors and strategic management decision-making by the operating side

Asset Owners & Asset Managers

- Make investment decisions as co-creators of medium- to long-term value together with companies, based on an understanding of corporate purpose, value creation stories, and capital allocation aligned with business models and industry characteristics
- Establish a culture of dialogue with companies that shares the common objective of enhancing medium- to long-term corporate value and is not driven by short-term share price fluctuations; clearly articulate investment and engagement policies and maintain constructive dialogue in line with those policies
- Promote improvements to passive investment business models and the development of remuneration and evaluation frameworks that support constructive dialogue, through collaboration between asset managers and asset owners

Proxy Advisory Firms

- Clearly articulate voting recommendation criteria; institutionalize direct dialogue with companies and provide advice grounded in substantive corporate understanding

ESG Evaluation and Data Providers

- Clearly articulate evaluation criteria and shift to assessment methodologies that emphasize the quality and context of value creation processes and non-financial strategies

Government

- Promote the development of an environment necessary for encouraging companies' proactive and autonomous engagement in growth investment, as well as supporting investors in actively evaluating and backing such initiatives, through bold streamlining and further principle-based reform of the Corporate Governance Code

I. Introduction①

Corporate governance in Japan: Background and evolution

- Corporate governance in Japan has developed through a legal system rooted in commercial law traditions, such as those of France and Germany, while being strongly influenced by market rules from the UK and US. Within this framework, Japan has pursued
 - (1) autonomous decision-making where management takes its own responsibility for risk; and
 - (2) the formation of a chain of trust among shareholders, board of directors, and management that supports that type of decision-making but maintains an appropriate level of tension among these actors.
- The Japan Revitalization Strategy (Revised in 2014) positioned strengthening corporate governance as a growth strategy element.
 - Formulation of the Stewardship Code (February 2014)
 - Establishment of the Corporate Governance Code (June 2015)
 - Tokyo Stock Exchange (TSE) request for “Management That is Conscious of Cost of Capital and Stock Price” (2023)
 - Further refinement of institutional investors’ voting guidelines, etc.

 Efforts have led to an increase in numbers of outside directors, fewer cross-shareholdings, and better information disclosure. Management practices that emphasize indicators like return on equity (ROE), return on invested capital (ROIC), and price book-value ratio (PBR) have become more common.

The Nikkei Stock Average reached a new all-time high for the first time in 34 years in February 2024 and has continued to rise since.

Observations on the current reforms to corporate governance frameworks

- While corporate governance frameworks have been put in place, they have yet to produce tangible results.
- Corporate profits seem to be overly allocated to shareholder payouts and not enough toward reinvestment in growth and sharing with employees, business partners, and other stakeholders, thereby failing to strengthen companies’ long-term earning capacity.

One factor is that the following market players and other parties have not contributed sufficiently to constructive dialogue:

- Activist investors seeking short-term profit gains
- Certain passive investors that prioritize uniform management indicators and engage in largely formalistic voting practices
- Proxy advisory firms and ESG evaluation and data providers that support such investors

I. Introduction②

Key perspectives for future reforms to enhance corporate value

- Appropriate deployment of management capital to enhance medium- to long-term corporate value (i.e., risk-taking), along with constructive dialogue with shareholders and investors regarding that capital deployment
- Appropriate distribution of corporate value not only to shareholders but also to stakeholders, including employees, business partners, and local communities
- An enabling environment that supports companies' proactive and autonomous engagement in bold growth investment and investor behavior that underpins those initiatives



Now, ten years after the introduction of the Corporate Governance Code, the need is not to make more formal refinements to the rules but rather to promote substantive, company-led governance reforms for supporting value creation, and shift toward measures and mechanisms that encourage and support autonomous corporate activity.



Building on the progress of corporate governance reforms to date, this statement presents Keidanren's basic views on the challenges facing companies and investors and the roles they need to play in transitioning toward governance that contributes to the enhancement of medium- to long-term corporate value; rooted in these views, Keidanren will also work to encourage a transformation in management mindsets and offer policy proposals to the government.

II. Future Issues Building on Past Corporate Governance Reforms

1. Issues for Companies (Business Corporations)

Corporate management: Current conditions and issues

- Through share buybacks, enhanced dividends, and similar measures, improvements in short-term management indicators and shareholder returns have expanded.
- Cost-cutting and near-term improvements in capital efficiency have come to the fore, while investments that contribute to medium- to long-term value creation—such as R&D investment, capital investment, human capital investment, and investment in new businesses—have stagnated.
- Amid growing uncertainty both inside and outside Japan, there is a need for strategies to achieve a virtuous cycle of growth and distribution through appropriate value distribution to multiple stakeholders, including employees, business partners, and shareholders, and medium- to long-term value creation.

What corporate management needs to do

- Decisively shift toward proactive growth investment
- Clearly articulate their company's purpose and direction for long-term growth as a value-creation scenario—from both economic and social value perspectives—and actively invest in growth
- Clarify basic policies and priorities for allocating management resources toward growth, taking into account opportunities and risks, and make investments after clearly demonstrating the rationality of management judgments through dialogue with diverse stakeholders, including shareholders

Recommendations on revising the Corporate Governance Code

- In order to encourage proactive growth investment by companies, efforts should pursue bold streamlining and further principles-based reform by returning to the fundamentals of the “comply or explain” approach and avoiding excessive rule-making; revisions should focus on three aims:
 - (1) Eliminate principles and supplementary principles subject to “comply or explain” to keep the scope to a minimum
 - (2) Design the principles to encourage management to think independently and explain their decisions in their own words
 - (3) Remove examples from the principles and supplementary principles of the Code and instead promote operational efforts, such as highlighting diverse good practices that align with the objectives of the Code.
- Companies should place greater emphasis on explaining based on individual judgments than on formal compliance.
- Investors should take part in constructive dialogue by engaging with those explanations and offering proposals.
- The Code should be a framework to support autonomous management driven by corporate originality and creativity, not a mechanism to control corporate behavior or serve specific policy objectives.
- The government should develop an environment conducive to constructive dialogue through efforts to formulate indicators for impact investment and financing that also relate to evaluation of companies' medium- to long-term value-creation scenarios.

 Bring about corporate management that facilitates growth investment and appropriate distributions to a wide range of stakeholders!

II. Future Issues Building on Past Corporate Governance Reforms

2. Issues for Shareholders and Investors

Expectations for shareholders and investors

- Investment in companies' medium- to long-term value creation contributes to enhanced corporate value, and thereby generates medium- to long-term returns for shareholders and investors.
- One important element of corporate governance reforms is investors, together with companies, fulfilling their role as "co-creators."

What shareholders and investors need to do (by category)

(1) Asset owners and asset managers

- Make investment decisions based on an understanding of companies' purpose, management philosophy, mission, value creation stories, and capital allocation strategies, taking into account business models and industry characteristics, and foster a culture of dialogue that shares the common objective of enhancing medium- to long-term corporate value and does not sway based on short-term share price fluctuations
- Articulate investment and engagement policies in light of fiduciary responsibilities and maintain constructive dialogue in line with those policies
- In exercising voting rights, respect not only compliance with principles but also explanations for management decisions that differ from those principles, making autonomous, substantive judgments based on companies' explanations
- Through collaborations between asset owners and asset managers, promote improvements to passive investment business models and the development of compensation/evaluation frameworks of active investment that support constructive dialogue
- Government role: Make the Asset Owner Principles more effective

(2) Proxy advisory firms

- Articulate the criteria, analytical processes, and organizational structures underlying voting recommendations and establish mechanisms that enable companies to understand and verify the information
- Dialogue directly during the recommendation formulation process to fully reflect company-specific circumstances, industry characteristics, and the management environment and, in turn, incorporate the results of that dialogue into recommendations
- Government role: Explore the optimal regulatory framework for proxy advisory firms, including a transition to a registration-based system

(3) ESG evaluation and data providers

- Articulate the methodology underlying evaluation indicators and weightings and establish an environment that enables companies to proactively review and verify their own assessments
- Instead of using purely score-based assessments, transition to evaluation methodologies that emphasize the quality and context of information based on corporate value-creation processes such as non-financial strategies, the accumulation of human capital, and innovation activities
- Enhance two-way communication with companies beyond mechanical analyses of publicly available information, which helps accurately understand corporate realities, and appropriately reflect insights gained through that dialogue in evaluation results
- Government role: Review the implementation status of the Code of Conduct for ESG Evaluation and Data Providers and consider necessary revisions to the Code of Conduct, as well as mechanisms to enhance its effectiveness

II. Future Issues Building on Past Corporate Governance Reforms

3. Issues Related to Shareholders' Meetings, Disclosure, Shareholder Rights, Etc.①

Need to review the system framework

- As relationships between companies and shareholders/investors have diversified, we are now at the stage of reviewing the operations of shareholders' meetings, disclosure content and methods, and the scope of shareholder rights.
- Discussions on revising the Companies Act and the Financial Instruments and Exchange Act have begun; however, it is important to rebuild the framework in a way that integrates hard law and soft law.

Disclosure prior to general meetings of shareholders: Issues and optimal approach

- In line with the request from the Minister of Finance and Minister of State for Financial Services of Japan dated March 28, 2025, for listed companies' appropriate information provision ahead of a general shareholders' meeting, many companies disclosed annual securities reports before shareholders' meetings; however, there is now a larger formal compliance burden on companies.
- In principle, the framework should enable companies to flexibly provide information, through dialogue between companies and shareholders, that is genuinely useful for shareholders in exercising their voting rights.
- There is a need for a drastic review based on a comprehensive assessment of information gaps, disclosure methods, the appropriate approach to audit and assurance, and the burden on companies.

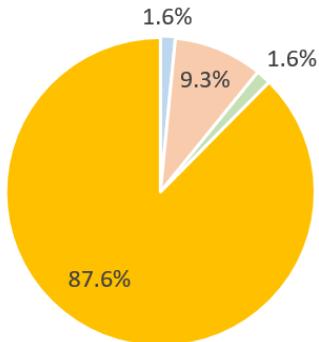
Findings from Keidanren's Survey Results on Disclosure Prior to General Meetings of Shareholders (published July 15, 2025)

1. Responding companies

- Survey period: May–June 2025
- Survey scope: All Keidanren member companies and organizations
- Responses: 260 companies, 181 of which disclosed securities reports prior to their general meetings of shareholders this year

2. Investor responses

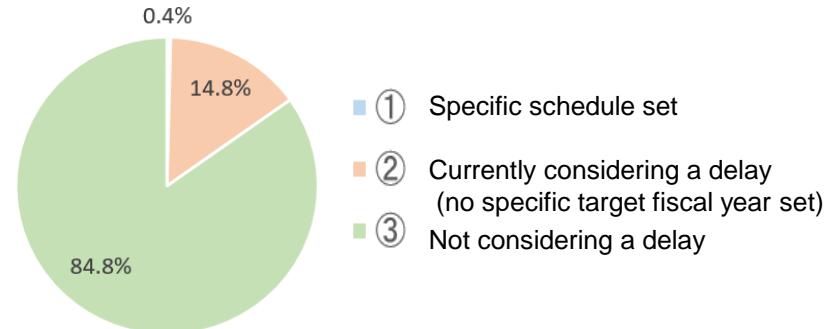
- Survey scope: 181 companies that disclosed securities reports prior to general meetings of shareholders
- Valid responses: 129 companies
- No notable response from investors: 113 companies (87.6%)
- Positive feedback from investors: 14 companies (11%)



- ① Received significant positive feedback
- ② Received some positive feedback
- ③ Received negative feedback ("not very helpful," etc.)
- ④ No notable response

3. Status of discussions on delaying general meetings of shareholders

- Survey scope: 260 responding companies
- Valid responses: 257 companies
- Not considering a delay: 218 companies (85%)
- Currently considering a delay (no specific target fiscal year set): 38 companies (15%)
- Specific schedule set: 1 company (0.4%)



II. Future Issues Building on Past Corporate Governance Reforms

3. Issues Related to Shareholders' Meetings, Disclosure, Shareholder Rights, Etc.②

Requirements for exercising shareholder proposal rights

- Shareholder proposal rights are granted to shareholders who hold either 1% of total voting rights or 300 voting rights continuously for six months

Need for a review of shareholder proposal rights

- In recent years, the number of shareholder proposals has increased markedly, placing a growing burden on companies in efforts to respond accordingly.
- The current framework, under which shareholders are uniformly granted proposal rights upon holding 300 voting rights regardless of company size or type, lacks sound rationale and should be discontinued.
- Consideration should also be given to revising the deadlines for exercising proposal rights and to prohibiting shareholder proposals that would involve amending articles of incorporation in relation to business execution matters.
- There is an urgent need to address the common practice of activists and others submitting proposals related to business execution matters for the purpose of pursuing short-term gains.
- In order to bring management that focuses on companies' medium- to long-term growth to fruition, mechanisms of preferential treatment for buy-and-hold shareholders through the use of class shares also deserve consideration.

Reference: Proportion and monetary value of 300 voting rights

- The requirement to hold 300 voting rights in order to submit shareholder proposals has not been revised since the introduction of the system in 1981; however, reductions in minimum investment units and other factors have significantly lowered the investment amount required to meet this threshold (300 voting rights).
- At Company A (see below), for example, the investment amount corresponding to 300 voting rights declined from approximately 440 million yen at the end of 1989 to approximately 4.6 million yen as of June this year; shareholder proposals can thus now be submitted with relatively small amounts of capital, raising concerns about the potential for abusive shareholder proposals.

Company	300 voting rights / Total number of voting rights	Investment amount required to meet threshold (300 voting rights)	
		As of the end of 1989	As of June, 2025
Company A	Less than one in a million	441 million yen	4.64 million yen
Company B	Less than one in 10,000	276 million yen	10.32 million yen

Note 1: Calculated based on the number of voting rights at the end of September 2024

Note 2: At the end of 1989, the Nikkei Stock Average was at a similar level to the present

Source: news reports

III. Conclusion

- Corporate governance reforms in Japan have made substantial strides forward, but remains a work in progress.
- With the Corporate Governance Code entering its 10th year in effect, a key issue going forward will be developing an environment that moves beyond formal compliance and translates reforms into substantive management improvements.
- The real goal of reforms is not to ensure compliance with norms for the sake of compliance but to enroot corporate behavior that fosters sound, sustainable economic growth.
- There is a need for continuous, cross-system review of the framework, with an eye to efforts to mitigate corporate burdens by eliminating redundancies and by revising uniform rules that constrain corporate activity, in order to enable companies to achieve autonomous, flexible growth.
- It will be vital to keep building effective initiatives on the foundation that has taken shape thus far; Keidanren hopes to see companies, investors, and systems each fulfill their respective roles and continue making steady progress.



Creating an environment necessary to promote constructive dialogue between companies and investors

The Code of Conduct for ESG Evaluation and Data Providers

Asset Owner Principles

Stewardship Code

Corporate Governance Code

TSE's Securities Listing Regulations

Financial Instruments and Exchange Act

Companies Act

Regulations for Enforcement of the Companies Act