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Revision of the Corporate Governance Code: Aiming for growth

On 21 July, 2026, the revision of the Corporate Governance Code (hereinafter, ‘the Code’) was finalised. The most prominent feature of this revision is that, while positioning ‘offensive’ measures, namely the promotion of tangible and intangible growth investments, as the central objective, it emphasises enhancing the functions of the board of directors as a means to encourage more substantive responses to the revised Code. Since the introduction of the Code in 2015, the number of independent directors on boards has increased significantly. For a board with enhanced independence and a primary focus on oversight to function effectively and achieve growth, successful strategy-centred communication between management (the management team) and the board becomes even more crucial.

As uncertainties such as geopolitical shifts and technological advancements rise, and companies are required to achieve growth while facing unexpected changes in the external environment, including unsolicited takeover proposals and shareholder activism, each company must exercise creativity in the role of its board of directors and its decision-making processes. The abolition of the Supplementary Principles in the revised Code and the transition of many of them to Interpretive Guidelines, which are exempt from the ‘comply or explain’ requirement, are significant in that they expand individual corporate discretion. Consequently, this puts to the test the effectiveness of each company’s board of directors, including its ability to make decisions on the allocation of management resources geared towards growth.

1. Key points of the revised Code

1.1 Promotion of growth investment

If the policy objective of this Code revision[1] were to be expressed in a single phrase, it would be the ‘promotion of growth investment’ as an ‘offensive’ strategy, with ‘enhancing the functions of the board of directors’ serving as the means to achieve it.[2] Although the initial corporate governance reforms advocated for both ‘offensive’ and ‘defensive’ approaches, as well as for sustainable growth, the ‘offensive’ aspect has been emphasised this time, reflecting the Japanese government’s growth strategy and the formulation of growth-strategy investments based on it. In the revised Code, in addition to ‘listed companies’ as the primary addressee, the ‘board of directors’ is also emphasised as a subject of the Code. As a role and responsibility of the board in overseeing management, ‘allocation of management resources’ has been put forward, such as ‘growth investments (investments in equipment, R&D, human capital, intellectual property and other intangible assets) and business portfolio reviews’ (Principle 4-1) (**Table 1**). The Interpretive Guidelines, which represent ‘expectations (to be addressed by reference to them)’ (Preamble 9) and are exempt from the ‘comply or explain’ requirement, also emphasise the role of the board of directors.

Regarding relationships with shareholders, the effective utilisation of ‘financial assets such as cash as well as management resources such as physical assets’ as part of resource allocation is advocated not only for shareholder payouts such as dividends and share buybacks but also from the perspective of promoting growth investment (Principle 4-2 Interpretive Guideline). Shareholders do not necessarily desire payouts alone. Rather, they often perceive a shortage of investments in intangible assets such as R&D and human capital. Applying the concept of ‘economic profit’ to intangible asset investments, as introduced in the Ministry of Economy, Trade and Industry (METI)’s ‘Growth Investment Guidance’, finalised on the same day as the Code, is one potential solution in this regard.[3]

[1] Tokyo Stock Exchange (2026a). ‘Corporate Governance Code: Seeking sustainable growth and increased corporate value over the mid to long term.’ 21 July, 2026. https://www.fsa.go.jp/news/r7/singi/20260721/01.pdf

[2] Financial Services Agency and Tokyo Stock Exchange (2026a). ‘On the revision of the Corporate Governance Code aimed at promoting growth investments.’ 21 July, 2026. https://www.fsa.go.jp/news/r7/singi/20260721/03.pdf

[3] Asaoka, Daisuke (2026). ‘Enhancing the quality of corporate value: The significance of economic profit.’ PwC Intelligence Monthly Economist Report, Governance Insights Series: Value Management, Vol. 3. 3 July, 2026. https://www.pwc.com/jp/ja/services/consulting/intelligence/monthly-economist-report/monthly-economist-report202607.html

Table 1: The board of directors and growth investment in the revised Code

	Content
Principle 4-1	**(Roles and responsibilities of the board: High-level direction of business strategy)** In formulating and disclosing business strategies and business plans, the board of directors should, with the aim of achieving growth, present basic policies on earnings plans and capital policies based on the company's cost of capital. The board should also present targets regarding profitability, capital efficiency, etc., and explain specifically what will be executed regarding the allocation of management resources, such as growth investments (investments in equipment, R&D, human capital, intellectual property and other intangible assets) and business portfolio reviews, to achieve those targets.
Principle 4-1 Interpretive Guideline	Based on this path, the board of directors should accurately understand the company's cost of capital before formulating and disclosing business strategies and business plans. In addition, to realise the earnings plans, basic policies on capital policies and targets for profitability, capital efficiency, etc., presented in those strategies and plans, the board should appropriately allocate capital and other management resources, such as by undertaking growth investments and business portfolio reviews.
Principle 4-2 Interpretive Guideline	Based on the company's business strategy and business plans, the board of directors should continuously verify whether management resources, including cash and other financial assets as well as physical assets, are being effectively utilised for growth investments and other purposes. This will help ensure that management resources are allocated in a manner that represents appropriate risk-taking and leads to sustainable growth and the enhancement of corporate value over the mid to long term. Furthermore, the board should effectively oversee the allocation of these and other management resources, as well as the execution of strategies regarding business portfolios, to ensure they contribute to the company's sustainable growth.

Source: Tokyo Stock Exchange (2026a) (Highlights by the author)

1.2 Focus on the function of an independent board of directors

In this revision, the functioning of a highly independent board of directors is emphasised as a mechanism for promoting growth investment. Based on the current situation where a certain degree of formality has been established, the intention is to 'substantiate the Code' by 'promoting substantive responses', focusing on the functioning of the board.[4] The core of this substantiation is ensuring the effective functioning of an independent board of directors.

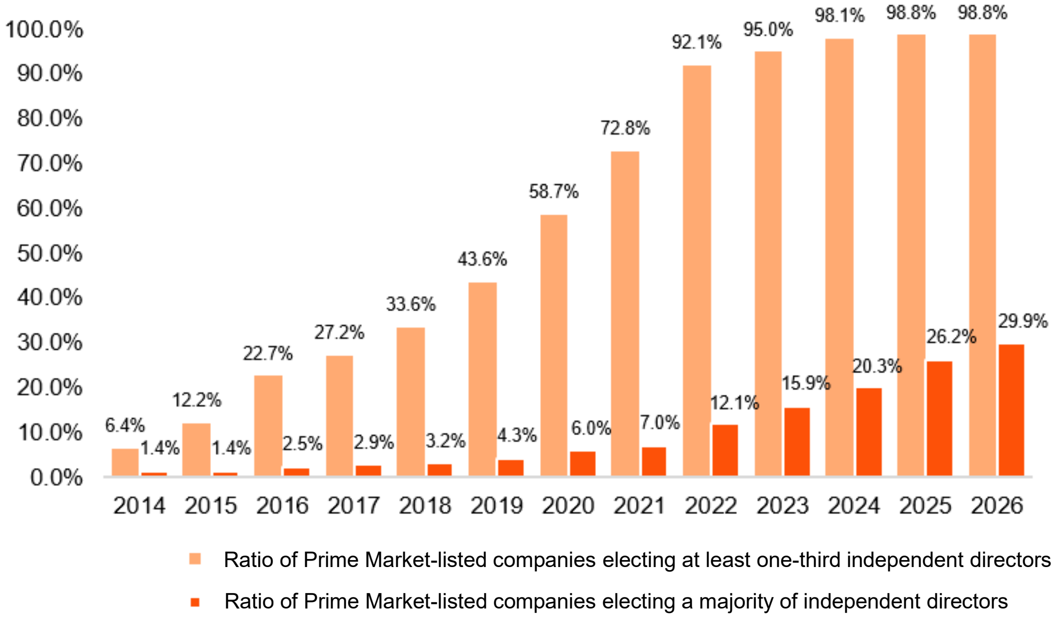
Since the last revision, the independence of boards has continued to increase (**Figure 1**), and in 2026, the ratio of companies listed on the Prime Market of the Tokyo Stock Exchange that elected a majority of independent directors reached 29.9%.[5] The average number of directors on the boards of Prime Market-listed companies is 9.3, of whom 4.4 are independent. Using this ratio as an index of independence, the figure stands at 47.3%. In the United States, the ratio of independent directors at S&P

[4] See Footnote 2, Financial Services Agency and Tokyo Stock Exchange (2026a).

[5] Tokyo Stock Exchange (2026b). 'The status of election of independent directors and establishment of nominating and remuneration committees at TSE-listed companies.' 21 July, 2026. https://www.jpx.co.jp/equities/listing/ind-executive/nlsgeu000005va0p-att/t13vrt000001jpn9.pdf

500 companies was 84.8% in 2026.[6] However, executive directors in the US are often limited to the CEO alone, or to the CEO and CFO, meaning that the level of independence is already nearing its upper limit.

Figure 1: Independence of the board of directors



Source: Tokyo Stock Exchange (2026b)

The role of independent directors includes (1) overseeing overall management, (2) overseeing conflicts of interest between the company and managers or controlling shareholders, (3) appropriately reflecting the opinions of stakeholders including minority shareholders and (4) providing advice from the perspective of promoting sustainable growth and enhancing mid- to long-term corporate value (**Table 2**). In this revision, the order of these descriptions has been changed: ‘advice’, which was the first item before the revision, has moved to the last position, suggesting a direction that places greater emphasis on ‘oversight’. Given that oversight involves tension, including the election and dismissal of management through statutory or voluntary nominating committees, the responsibility of directors is growing along with their roles and authority. Consequently, there is an increasing need to evaluate the effectiveness (performance) of the board of directors. According to a survey of directors of US companies, the ratio of directors who believe that at least one member of their board needs to be replaced has reached 55%,[7] pointing to challenges in board composition and operations.

[6] Kim, Kevin, and Toby Huang (2026). ‘Proxy Season 2026: Director Support & Board Independence.’ ISS-Corporate, 26 June, 2026. https://www.iss-corporate.com/resources/blog/proxy-season-2026-director-support-board-independence

[7] Garcia, Ray, Paul DeNicola, Catie Hall, Ariel Smilowitz and Nick Bochna (2025). ‘2025 Annual Corporate Directors Survey: Driving a culture of accountability in the boardroom.’ PwC Governance Insights Center, October 2025. https://www.pwc.com/us/en/services/governance-insights-center/library/assets/pwc-2025-annual-corporate-directors-survey.pdf

Table 2: The role of independent directors

	Content
Principle 4-8	**(Roles and responsibilities of independent directors)** Listed companies should make effective use of independent directors, keeping in mind that they are expected to play the following roles and responsibilities in particular: **(1)** Overseeing management through the election and dismissal of managers and other important board decisions **(2)** Overseeing conflicts of interest between the company and managers or controlling shareholders **(3)** Appropriately reflecting the opinions of stakeholders, including minority shareholders, on the board from a standpoint independent of management and controlling shareholders **(4)** Providing advice on management policies and management improvements based on their own knowledge, from the perspective of encouraging sustainable growth of the company and increasing mid- to long-term corporate value

Source: Tokyo Stock Exchange (2026a) (Highlights by the author)

Reflecting the reality that important matters involving conflicts of interest or tensions arise between management and shareholders must be deliberated, the revised Code now also emphasises 'ensuring the quality' of independent directors (Principle 4-9) (**Table 3**). Since decisions at board meetings are made by a majority vote (Article 369 of the Companies Act), independence based on 'securing numbers' (Principle 4-10), such as the one-third or majority previously focused on, is a necessary condition. The sufficient condition for highly effective oversight, in such cases where conflicts of interest with management arise, is their 'quality', meaning their ability to make appropriate judgements for the benefit of shareholders.

Table 3: Securing the quality and number of independent directors

	Content
Principle 4-9	**(Securing the quality of independent directors)** The board of directors should select candidates for independent directors who possess sufficient qualifications to fulfil their roles and responsibilities so as to contribute to the company's sustainable growth and mid- to long-term corporate value enhancement, such as by engaging in frank, active and constructive discussions at board meetings.
Principle 4-10	**(Securing the number of independent directors)** Listed companies should elect independent directors who possess sufficient qualifications to fulfil their roles and responsibilities in a manner that contributes to the company's sustainable growth and mid- to long-term corporate value enhancement. Prime Market-listed companies should elect at least one-third of their directors as independent directors (and for listed companies on other markets, at least two) who possess such qualifications. Prime Market-listed companies that have a controlling shareholder should elect independent directors who are independent of the controlling shareholder to constitute at least a majority of the board (and at least one-third for such listed companies on other markets). Notwithstanding the above, Prime Market-listed companies (and listed companies on other markets that deem it necessary to elect at least one-third independent directors) that believe it necessary to elect a majority of independent directors, taking comprehensive account of their industry, size, business characteristics, organisational structure and the environment surrounding the company, should elect a sufficient number of independent directors.

Source: Tokyo Stock Exchange (2026a) (Highlights by the author)

From this perspective, expectations for support from the board secretariat have also been newly presented as an Interpretive Guideline (Interpretive Guideline 4-14). Since the sources of information for independent directors are primarily those provided by the company, the relevance of this information to their own expertise is a major concern. The American management scholar Peter F. Drucker pointed out that people are divided into 'readers' (who understand by reading) and 'listeners' (who understand by listening), and emphasised the importance of interacting with them based on this distinction.[8] Some independent directors express bewilderment at the volume and granularity of materials they are expected to read. Considering time constraints as well, it is vital to strike a balance with communications from management through listening.

Even more important is the communication between the CEO and the board of directors. As independence increases, the dependency of the board as a whole on information received from managers also grows. Communication is the factor that elevates the quality of the board of directors by drawing out insights based on the qualifications expected of independent directors, ultimately determining the success or failure of board operations.

1.3 Respecting individual corporate judgements

In the revised Code, a so-called 'streamlining' was carried out: while the Supplementary Principles, which were subject to the 'comply or explain' requirement prior to the revision, were abolished, new Interpretive Guidelines that are exempt from this requirement were established. While some of the Supplementary Principles were upgraded to Principles, many were transitioned to the Interpretive Guidelines. As a result, the items subject to the 'comply or explain' requirement are now restricted to the top-tier General Principles and the Principles immediately below them, with the number of those items significantly reduced from 83 to 30.

This change, which more concretely embodies the spirit of a principle-based approach, represents a major shift for Japanese companies, which have maintained high compliance rates, including with respect to the former Supplementary Principles. The significance of this lies in avoiding formalistic compliance responses while aiming for substantive governance that reflects each company's individual strategies and policies.

This is a necessary shift given the current business landscape, where environmental uncertainties such as geopolitical shifts and technological progress are rising, and individual corporate responses to shareholders, including unsolicited takeover proposals and activism, have become the new normal. Even if a company fully complies with the Code, it does not guarantee that all shareholders' demands will be satisfied. The channels of activities related to corporate governance, such as institutional changes typified by Code revisions and interactions with diverse shareholders, are becoming multi-layered, and the demands directed at companies are growing increasingly complex. If the weight of matters requiring corporate responses based on individual circumstances increases, it is therefore consistent to respect

[8] Drucker, Peter F. (2005). 'Managing Oneself.' *Harvard Business Review*, January 2005. https://hbr.org/2005/01/managing-oneself

the judgement of each company based on a principle-based approach.

In this sense, while the scope of management's discretion has expanded, it is also the managers who must bear responsibility for the outcomes. Many public comments expressed concerns over the potential for reforms to backslide due to this streamlining,[9] indicating that the responsibility of managers to explain and execute their business policies has increased further, even as they navigate the uncertainties of the external environment.

From the perspective of accountability, requirements for statutory disclosures are tightening. The phased introduction of mandatory sustainability disclosures based on the SSBJ (Sustainability Standards Board of Japan) standards depending on each company's market capitalisation and the disclosure of the Annual Securities Report (Yūkashōken Hōkokusho) before the date of the general meeting of shareholders (Principle 1-2) and at least three weeks prior to the meeting (Principle 1-2 Interpretive Guideline), a matter of high interest in the revised Code, can also be understood in this context. Similarly, the request for English disclosures, which was upgraded from a former Supplementary Principle to a Principle (Principle 3-2), is expected to grow stronger in the future.

Regarding the disclosure of the Annual Securities Report three weeks or more prior to the meeting, the Code notes a 'recognition that this is not necessarily easy' (Preamble 14) under the current system, which still leaves unresolved issues such as the integration of audits under the Companies Act (business reports and financial statements) and those under the Financial Instruments and Exchange Act (Annual Securities Reports). In this way, the introduction of Interpretive Guidelines can also be seen as serving the role of driving mid- to long-term policy implementation by including items in the Code even if compliance is expected to be difficult for the time being.

2. The future of the board of directors

2.1 The 'earning power' of the monitoring model

From the perspective of substantiating board functions under an 'offensive' approach aimed at growth, METI published in 2025 the 'Five Principles for Boards of Directors to Strengthen "Earning Power"', presenting action principles for boards in anticipation of the Code revision (**Table 4**).[10] Although these principles are written from the perspective of board oversight, they are simultaneously positioned as principles that managers should bear in mind. A board of directors with a primary focus on oversight is traditionally referred to as a 'monitoring model'.[11] However, for it to truly exert its 'earning' function, the

[9] Financial Services Agency and Tokyo Stock Exchange (2026b). 'Summary of public comment results on the revision of the Corporate Governance Code (2026).' 21 July, 2026. https://www.fsa.go.jp/news/r7/singi/20260721/05.pdf

[10] Ministry of Economy, Trade and Industry (METI) (2025a). 'Five Principles for Boards of Directors to Strengthen "Earning Power": From the Corporate Governance Guidance for Strengthening Earning Power.' 30 April, 2025. https://www.meti.go.jp/files/900017504.pdf

[11] Eisenberg, Melvin A. (1976). *The Structure of the Corporation: A Legal Analysis*. Boston: Little, Brown & Co.

concept of ‘monitoring’ itself needs to be updated further in Japan.

Table 4: The Five Principles for Boards of Directors to Strengthen ‘Earning Power’

	Content
Principle 1	**(Formulation of a Value Creation Story)** Formulate a value creation story accompanied by the company’s competitive advantages.
Principle 2	**(Encouraging Appropriate Risk-Taking by Management)** Encourage management to take appropriate risks, such as business portfolio restructuring and growth investments, towards realising the value creation story.
Principle 3	**(Encouraging Mid- to Long-Term-Minded Management)** Encourage management to conduct growth-oriented management with a mid- to long-term perspective, while ensuring that the board itself does not fall into short-termism.
Principle 4	**(Ensuring Appropriate Decision-Making Processes and Systems in Management)** Prompt management to ensure that its decision-making processes and systems contribute to swift and decisive decision-making, while taking care to avoid micromanagement.
Principle 5	**(Ensuring the Effectiveness of Nominations and Remuneration)** Select the most suitable CEO and formulate remuneration policies, while annually evaluating the CEO based on the details of Principles 1 to 4 to make decisions regarding reelection or non-reelection.

Source: Ministry of Economy, Trade and Industry (METI) (2025a)

Every country’s corporate governance framework has its own historical origins. While the emphasis on offensive management is a unique feature of the Japanese system, the traditional Japanese corporate management model prior to corporate governance reforms was closer to Germany’s than to that of the United States. Under the main bank system based on cross-shareholdings, banks were understood to be monitoring the companies they lent to.[12] Outside directors were also primarily individuals dispatched from these banks. A bank’s primary concern was to ensure that loan repayments are made in accordance with the contract. This perspective, which prioritised loan safety and conservatism, conversely implied that as long as a company was managed stably, there was no issue with it (although banks would intervene in management and personnel decisions if problems arose, such intervention was limited to exceptional situations of management crises). However, this is not consistent with actions that enhance earning power and realise growth as shown in **Table 4**; rather, it can even result in conflicting behaviour.

Reflecting on the historical development of Japan’s corporate governance system, which was centred on banks, Japanese companies encountered the concept of the ‘monitoring model’ (understood in the US as the basic form of a board of directors). It appears that the shareholder perspective, which inherently prioritises earning power, was accepted while coexisting alongside the bank perspective, which prioritises stability and conservatism. In the US, where capital funding is centred on stock markets, it is natural to think of board ‘monitoring’ as discussing strategy with, evaluating, and electing or

[12] Aoki, Masahiko, and Hugh Patrick (1996). *The Japanese Main Bank System*. Tokyo: Toyo Keizai Shinposha.

dismissing managers who bear the responsibility of ‘earning’ for shareholders, rather than merely remaining as passive observers. It is also natural that a high degree of board independence is required for this purpose. The concept of ‘Board 3.0’, modelled on successful cases of boards closely involved with private equity funds, is not a concept that contradicts the monitoring model, but rather can be seen as an extension of it.[13]

In this regard, the necessary condition for substantiation in Japan is the establishment of monitoring in the sense of ensuring that managers earn—a purpose and procedure entirely different from those under the main bank system. For this to occur, a high level of board independence is essential. The trend towards increasing boards where independent directors constitute a majority, as observed in Section 1, is consistent with this call for substantiation and is expected to continue in the future as earning power is prioritised.

2.2 Changes in relationships with shareholders

Behind the progress of corporate governance reform lies a shift in the share ownership structure of companies. In 1985, the shareholding ratio of banks recorded an all-time high of 20.9%, but by 2025, it had declined to an all-time low of 1.7%.[14] Conversely, the shareholding ratio of foreign investors, which was a mere 7.0% in 1985, recorded an all-time high of 34.7% in 2025, up from 29.8% at the time of the Code’s introduction in 2015 (**Table 5**).

Table 5: Changes in share ownership structure

	1985	2000	2015	2025
Foreign corporations, etc.	7.0%	18.8%	29.8%	34.7%
National and regional banks, etc.	20.9%	10.1%	3.7%	1.7%

Source: Tokyo Stock Exchange et al. (2026)

When shareholders change, the relationships with them also change. The importance of shareholder engagement was highlighted in the 2014 Stewardship Code.[15] Since then, against the backdrop of the Tokyo Stock Exchange’s 2023 request for ‘Management that is Conscious of Cost of Capital and Stock Price’,[16] as well as the deepening of discussions through METI’s ‘Guidelines for

[13] Gilson, Ronald J., and Jeffrey N. Gordon (2020). ‘Board 3.0: What the private-equity governance model can offer to public companies.’ *Journal of Applied Corporate Finance*, *32*(3), pp. 43-51.

[14] Tokyo Stock Exchange, Nagoya Stock Exchange, Fukuoka Stock Exchange and Sapporo Stock Exchange (2026). ‘Result of 2025 Shareownership Survey.’ 2 July, 2026. https://www.jpx.co.jp/markets/statistics-equities/examination/t13vrt000001irna-att/j-bunpu2025.pdf

[15] Financial Services Agency (2025). ‘Principles for Responsible Institutional Investors: Japan’s Stewardship Code: To promote sustainable growth of companies through investment and dialogue.’ 26 June, 2025. https://www.fsa.go.jp/news/r6/singi/20250626/01.pdf

[16] Tokyo Stock Exchange (2026). ‘Update on Request Regarding “Action to Implement Management that is Conscious of Cost of Capital and Stock Price.”’ 28 April, 2026. https://www.jpx.co.jp/news/1020/t13vrt0000013ti4-att/t13vrt0000013tl6.pdf

Corporate Takeovers' in the same year and its interpretation in 2026,[17] shareholder engagement and activism have advanced.

In these situations, the desired counterparts for dialogue are independent directors, who are in a position to evaluate, elect or dismiss managers from an independent standpoint. However, while only 23% of companies list this as an expected role for independent directors, 82% of institutional investors do so.[18] This indicates that shareholders are seeking opinions from an independent standpoint. With the Japanese government positioning the promotion of inward investment as one of its key policies,[19] the globalisation of share ownership is expected to continue. Under these circumstances, companies are required to adapt their management to the times, keeping in mind corporate governance mechanisms that correspond to such changes in the share ownership structure.

Ultimately, it is the general meeting of shareholders that elects or dismisses directors. This is evident from cases where shareholder proposals for director elections or dismissals differing from company proposals are submitted, or where company-proposed elections are rejected. Although predicting voting outcomes has become more difficult for certain proposals, the lack of independence or insufficient protection of shareholder interests stand out as primary reasons for split votes on director election proposals. The enhancement and design of board functions must be pursued based on the premise of securing shareholder trust.

3. Implications for corporate management

Based on the above discussion, what are the implications of the revised Code for corporate management (**Table 6**)? We will consider this question, particularly from the perspective of substantiating board functions.

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[17] Ministry of Economy, Trade and Industry (METI) (2026). 'Key Points of the "Guidelines for Corporate Takeovers": Reconfirming the Intent for Better Practice.' 18 June, 2026. https://www.meti.go.jp/policy/economy/keiei_innovation/keizaihousei/fair-ma-rule/pdf/kodoshishin_20260730_4.pdf

[18] Ministry of Economy, Trade and Industry (METI) (2025b). 'Reference Materials for the 6th Meeting of the Study Group on Corporate Governance for Strengthening "Earning Power" (Secretariat Briefing Document).' 13 February, 2025. https://www.meti.go.jp/shingikai/economy/earning_power/pdf/006_04_00.pdf

[19] Cabinet Office (2026). 'Action Program for Promoting Foreign Direct Investment in Japan 2026.' 2 July, 2026. https://www.cao.go.jp/invest-japan/committee/program2026.pdf

Table 6: Three implications for corporate management

	Item	Content
1	Building a monitoring model that truly exerts 'earning power'	- Establishing mechanisms through which the board of directors indicates strategic direction and backs up management's risk-taking and judgements - Developing succession plans not only for managers but also for the composition and selection of the board of directors
2	Communication between management and the board of directors adapted to change	- Appropriately allocating the 'quantity' and 'quality' of information, and distinguishing between 'reading' and 'listening' channels - Leveraging individual communication between the CEO and board members to draw out their insights - Conducting systematic evaluations of the board's effectiveness
3	Intensive discussion on strategies for growth	- Deliberating on strategies and management resource allocation in light of geopolitical situations and technological progress - Delegating authority from the board of directors to management

Source: PwC Intelligence

3.1 Building a monitoring model that truly exerts 'earning power'

In an environment where the subjects and meaning of monitoring are changing along with shifts in share ownership structures, the role of the board of directors must also change with the times. The key to its substantiation is the establishment of a monitoring model that secures shareholder trust, set against a backdrop of constructive tension involved in evaluating, electing or dismissing 'earning' managers.

Reflecting the board's role emphasised in the revised Code, the board must present strategic directions and then support management's judgements by backing up decisive risk-taking, including changes in the allocation of management resources. Building such mechanisms will lead to embodying the spirit of the Code in corporate management under the 'trust' (Preamble 1) placed by shareholders. From this perspective, the Five Principles shown in **Table 4** remain useful.

At the same time, from a mid- to long-term perspective, management must constantly consider whether the composition and selection of members for the board of directors and committees are optimal. Taking into account the terms of office of each director, the current board must be operated while anticipating the future shape of the board. In an era where the external environment changes rapidly, as seen in the manifestation of geopolitical risks and the widespread adoption of AI, strategies change, and the required skills and roles shift accordingly. Although individual directors can update themselves by accumulating knowledge and information, reviewing the board's composition and member selection represents an important decision-making opportunity that arises periodically.

In this regard, while formulating succession plans for individual managers is crucial, continuous succession planning for the board of directors is also important from the perspective of enhancing its effectiveness. In such processes, situations can arise where directors responsible for oversight draft proposals to elect themselves—a classic problem historically known as ‘Who watches the watchers?’[20] Having a systematic board succession plan that looks towards a mid- to long-term vision is necessary for management to maintain high transparency in director elections.

3.2 Communication between management and the board of directors adapted to change

As the ratio of independent directors increases, the relationship between management and the board changes, and the relative roles and mutual relationships among directors also shift. Managers need to focus on the value of communication among directors and their relative roles, drawing out insights that align with the skills and roles expected of each director at the time of their election. Although their roles differ, this task is continuous with the utilisation of human capital within the enterprise. It is necessary to build a shared communication environment within the board of directors, including the appropriate allocation of the ‘quantity’ and ‘quality’ of information for timely sharing of understanding to realise growth-oriented strategies, and a conscious distinction between ‘reading’ and ‘listening’ channels.

The ‘communication environment’ referred to here is a broad concept. While factoring in external environmental changes and uncertainty, it is built on a foundation of trust between management and the board. It encompasses sharing exploratory or dissenting views on key agenda items, accumulating successful experiences where such discussions improved the quality of management decisions and raising future growth expectations.

To achieve this, it is important to utilise channels for addressing directors individually, such as through the CEO communicating with directors on a one-on-one basis and expressing their understanding of issues in their own words. Furthermore, board effectiveness evaluations and feedback mechanisms (Principle 4-13) are beneficial in systematically securing a qualitative improvement process to verify whether the relationship between management and the board is functioning as expected.

Shareholder activism and unsolicited takeover proposals have now become a common occurrence and may no longer be considered ‘emergencies’. However, it is precisely in such situations that the fruits of everyday communication are put to the test. If a company’s current strategy has been refined to the point where there is no room left for improving corporate value, and its management has secured the backing and approval of the board overseeing its earning power as well as the support of its shareholders, then communicating with activist funds, potential acquirers and existing shareholders will simply be an extension of that ongoing management practice.

3.3 Intensive discussion on strategies for growth

One of the key objectives of a board of directors elected by shareholders is to create corporate value over the mid to long term. In this regard, reflecting the board’s role in overseeing management, it is necessary to prioritise discussions on growth strategies. Beyond responding to institutional changes

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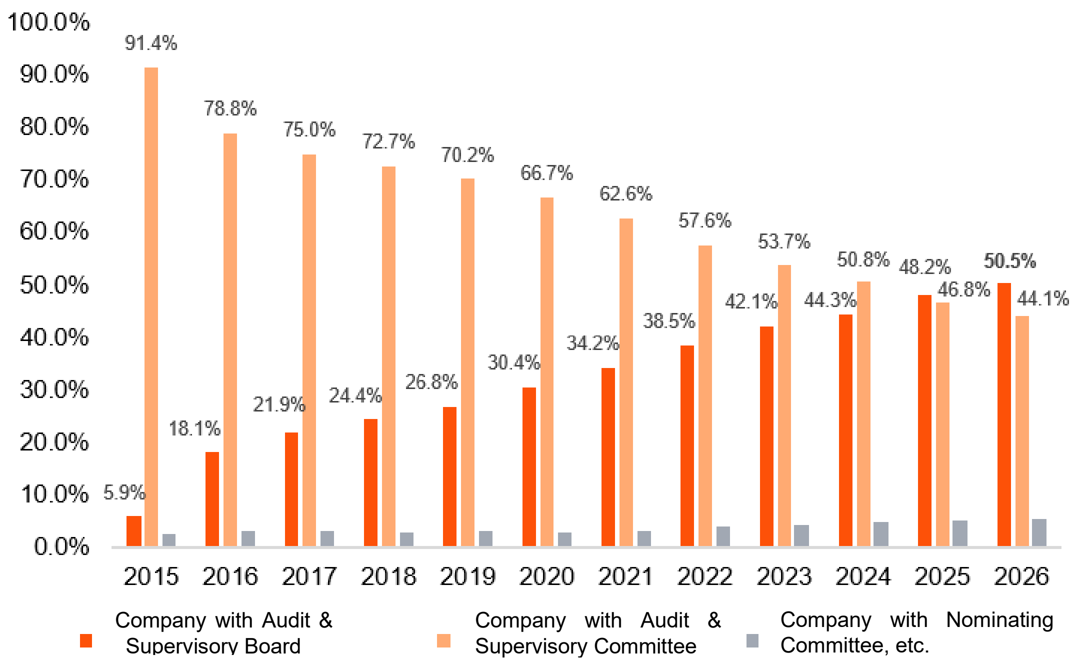
[20] The origin of this question traces back to the Roman era. Winstedt, E. O. (1899). A bodleian MS. of Juvenal. *The Classical Review*, *13*(4), pp. 201-205. https://doi.org/10.1017/S0009840X00078409

such as Code revisions, the items that the board needs to address to share understanding and debate are diverse, including shifts in the geopolitical landscape and technological changes like the widespread adoption of AI. Even as companies navigate these environmental changes, they must conduct intensive discussions on strategies for achieving growth, including policies on management resource allocation.

To achieve this, the board responsible for oversight must delegate substantial authority to managers. Regarding corporate organisational forms, the ratio of companies with an Audit and Supervisory Committee reached 50.5% in 2026, accounting for a majority of Prime Market-listed companies (**Figure 2**).[21] A key feature of this structure is that, under certain requirements (such as a majority of directors being external directors or provisions in the articles of incorporation), it allows the board to delegate 'decisions on important business execution' to directors, which is not permitted for companies with an Audit and Supervisory Board (Article 399-13 of the Companies Act). From the perspective of expecting accelerated growth within the wide discretion of management—under important strategic discussions at the board and the supervision of their execution—the adoption of this corporate form is expected to increase further.

Figure 2: Corporate organisational forms



Source: Tokyo Stock Exchange (2026b) and Japan Association of Corporate Directors (2025)

With the progress of corporate governance reform, the shape of the board of directors has changed significantly. Reflecting the current state of boards with increased independence, the revised Code further approaches a model that expands management's decision-making discretion while backing up their bold risk-taking. Under the delegation of authority based on communication and trust between

[21] See Footnote 5, Tokyo Stock Exchange (2026b); Japan Association of Corporate Directors (2025). 'Corporate Governance Survey of Listed Companies.' 1 August, 2025. https://www.jacd.jp/news/opinion/cgreport.pdf

management and the board, sharing an understanding of key strategies and effectively achieving growth will be put to the test in this monitoring model focused on ‘earning’.

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