Our research results

Analysis and Evaluation of the Board of Directors Through a Skill Matrix

Enhancement of Our Overall Stewardship Operations

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We conduct research in the field of sustainability, and we endeavor to incorporate the insights obtained from research outcomes into our real-world stewardship operations.

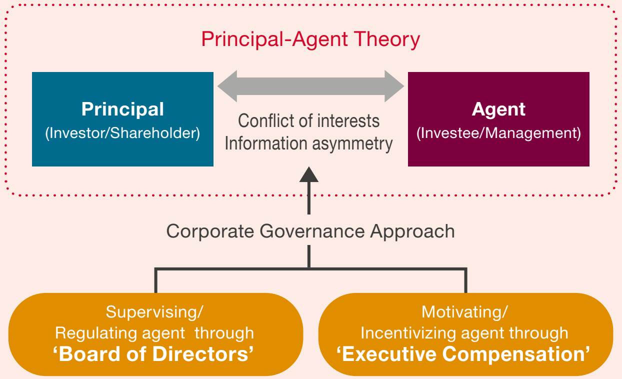
For example, the 'Principal-Agent Theory' referenced in microeconomics operates under the assumption that information asymmetries and conflicts of interest arise between principals (investors and shareholders) and agents (senior management of investee companies), and focuses on corporate governance as a means to resolve these issues. We focused on supervision and regulation through boards of directors (right side of diagram below), particularly on skills matrices whose disclosure is required under the revised Corporate Governance Code, and analyzed the relationship between the skills possessed by directors and companies' financial and non-financial indicators.

However, given that skills matrices face challenges in terms of lack of objectivity and standardization (making horizontal comparisons difficult), in our research we automatically projected directors' skills based on nomination rationale statements obtainable from listed companies' shareholder meeting notices. After converting the obtained skills information into matrix form and analyzing the relationships between these skills and companies' financial and non-financial indicators, several findings emerged. First, having at least one outside director with corporate management skills may contribute to enhancing ROE and overall ESG scores. Second, internal directors possessing overseas experience and directors having technical and specialized skills show positive correlations with ROE, potentially exerting favorable impacts on management performance.

These research findings are widely shared among internal stakeholders including portfolio managers and analysts, while simultaneously contributing to the enhancement of our overall stewardship operations through various applications such as ESG scores P.109 for Japanese equities that incorporate skills matrices, role model criteria P.92 for proxy voting, and the establishment of evidence-based engagement milestones P.69.

These research findings were presented at the international conference IIAI-AAI (International Institute of Applied Informatics - Advanced Applied Informatics) held in July 2025 under the title "*Director Skill Matrix Disclosure and Its Impact on Corporate Performance and ESG Scores: Evidence from Japan*"* and received the Best Paper Award, the highest honor.

Framework of the Principal-Agent Theory



Considerations (Summary)

- Having at least one outside director with corporate management skills may contribute to enhancing ROE and overall ESG scores.
- Internal directors possessing overseas experience and directors having technical and specialized skills show positive correlations with ROE, potentially exerting favorable impacts on management performance.

Best Paper Award

This award is presented to
Dai Yamawaki, Koutarou Tamura, Kaito Takano and Kei Nakagawa

For the paper entitled
Director Skill Matrix Disclosure and Its Impact on Corporate Performance and ESG Scores: Evidence from Japan

IIAI
18th IIAI International Congress on Advanced Applied Informatics (IIAI AAI 2025)
July 13-19, 2025
Kitakyushu, Japan

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Our research results

Board Diversity and Corporate Value—Insights from a Faultline Perspective—

Enhancing diversity while limiting boardroom divisions may help support higher corporate value

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We believe that corporate governance is effective when the board of directors itself is more effective. This belief guides both our engagement with investee companies and our in-house research. In this section, we introduce our research on the relationship between board diversity and corporate value.

The amended Corporate Governance Code also emphasizes that appointing directors with diverse backgrounds—including differences in gender, nationality and age—is expected to support sustainable growth in corporate value over the medium to long term. One reason for this is that boards are increasingly expected to draw on a wider range of perspectives in their decision-making as globalization and rapid technological change make the business environment increasingly complex.

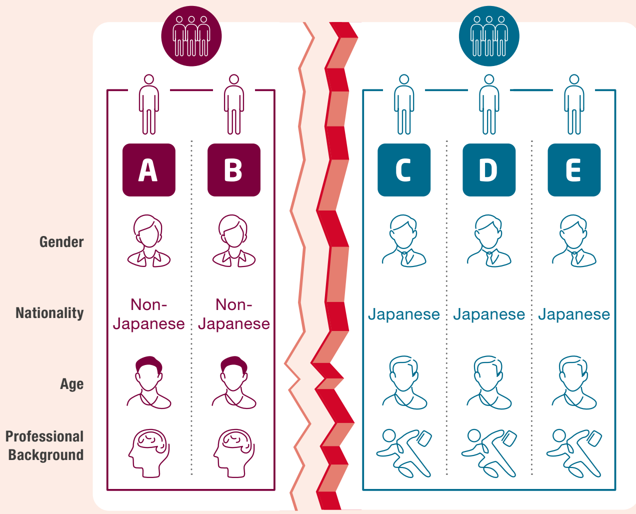
However, diversity does not automatically lead to higher corporate value. Differences in background can create friction in communication among board members. There is also a risk that diversity remains only superficial, with the perspectives of minority members not fully incorporated into board discussions and decisions. With this in mind, we focused on the concept of a "faultline"—a potential dividing line that can emerge due to differences in background within a group.

Figure 1 illustrates this idea. A board may appear diverse in terms of its overall composition, but if certain attributes—such as gender or nationality—tend to cluster along the same lines, members with similar characteristics may end up forming two distinct subgroups. When this happens, the dialogue needed to fully leverage different perspectives may weaken, making it harder for the board to function effectively. In this sense, the concept of a faultline captures the extent to which a board may become divided as subgroups form.

We applied this framework to board data from Japanese companies to examine the relationship between board diversity and ROA. Looking at all companies together, we did not find a clear relationship. However, as shown in Figure 2, a different picture emerged once faultline strength was taken into account. Among companies with lower levels of division, higher diversity tended to be associated with higher ROA. This finding suggests that what matters is not simply having diversity in superficial terms to show the outside world, but building a board structure that limits divisions and allows diverse viewpoints to be substantively reflected in decision-making.

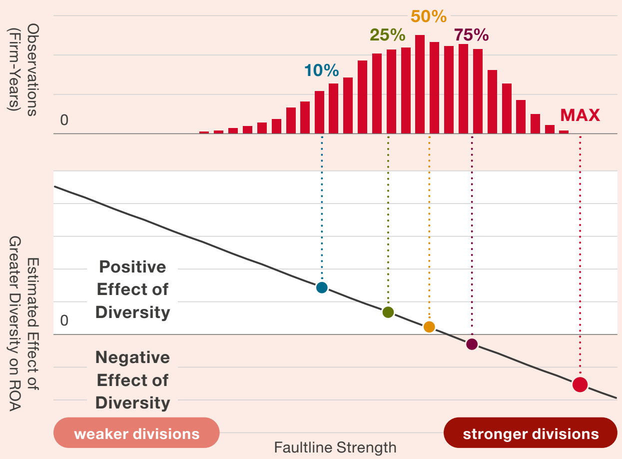
This research has attracted outside interest, including through presentations at the annual conference of the Nippon Finance Association (2024) and a seminar hosted by the Securities Analysts Association of Japan (2025), and it has also informed our external communications. At the same time, important challenges remain, including rigorously establishing causality beyond correlation and clarifying the specific mechanisms through which diversity contributes to higher corporate value. We will continue to advance this research and translate its findings into practice.

Figure 1 Illustration of Boardroom Faultlines



Illustrative example of a five-member board composition.

Figure 2 Board Diversity and ROA, Taking Faultline Strength into Account



Illustrative presentation of results from a fixed-effects panel regression of ROA on a board diversity index, faultline strength, and their interaction term. The analysis is based on director and financial data for TOPIX constituents from FY2016 to FY2023.