

Rating Methodology by Sector

Incorporated Educational Institutions

JCR takes into consideration different forms of corporations that establish schools in determination of rating for educational institutions. Such forms in Japan are mainly private (incorporated educational institutions) and national (national university corporations). The following outlines the rating methodology for educational institutions that establish private universities (hereinafter referred to as "university corporations").

1. Assessment of Business Base

(1) Characteristics and Business Environment of Educational Institutions

University corporations have the following unique characteristics: (i) specialization and diversity of each academic discipline, (ii) difficulty in measurement of investment effect (education outcome), (iii) public nature (necessity of inefficient field), (iv) diversity of stakeholders, (v) non-existence of owners, (vi) multi-tiered governance structure, and (vii) non-repetitive nature in purchasing (educational) services. As a non-profit organization, while it is necessary to recognize differences between a non-profit organization and a general business corporation, which performs reproduction on an enlarged scale and pays dividends to shareholders, and to focus on qualitative aspects, the approach for assessment itself is not basically different from that applied to a general business corporation. Both business risk and financial risk of a university corporation are essentially low, because it is difficult to assume that a drastic change can happen to business environment surrounding a university corporation, if it can secure the fixed number of students to be enrolled stably, can appropriately allocate staff, and can accumulate funds, which match with future investments. On the other hand, it has difficulty in diversifying revenue sources compared with general business corporations, and its cost structure is rigid. The business risk may increase rapidly when it can no longer secure students stably in number. There are also structurally worsening factors in the external environment such as decrease in the number of children, financial difficulties and global competition.

(2) Position and Competitive Strength in Incorporated Educational Institutions

In assessment of creditworthiness of each university corporation, regional characteristics or faculty organizations have a significant impact on it. JCR will examine industrial structure and population composition in the region and then will analyze trend of rival educational institutions and competitive situation there. Specifically, JCR looks at its position in the region (faculty composition, establishment of affiliated schools, composition of birthplace or academic level of the enrolled students), as well as production of human resources (within the local area).

(3) Characteristics of University Corporation

(i) History and Foundation Spirit (Climate and Culture)

The history of the university corporation significantly affects the basic characteristics and the formation of school

tradition. It is meaningful not merely to follow the history, but to use it as a clue to predict future business development. Since foundation spirit is often abstract and conceptual, JCR confirms interpretation of it when the university corporation was founded and the contemporary reinterpretation, and pays attention to how this spirit can be embodied in its activities of education of students and production of human resources.

(ii) Management and Governance

It is important from a rating perspective to understand the management capabilities, track record, and management stance. Management policies that respond to changes in the environment and measures to realize goals, etc., will be evaluated through interviews with the chancellor and each school principal. In many cases, the top-down leadership style of a corporation is not effective in the management of a university corporation. In addition, if the autonomy and discretionary scope of the faculty council is expanded too far, it might lead to losing of the most of its decision-making discretion as a corporation. JCR focuses its attention on whether a university corporation has found a common vision between the corporate body and faculty, defined role sharing between them and established a framework, in which cooperation and checks can work fully between them. JCR also confirms process and staff organization that practice and verify the above.

(iii) Risk Management and Organizational Structure

JCR assesses whether a university corporation has an organizational structure and a personnel assignment that can appropriately respond to the management policy, relationship between corporate body and faculty and changes to the relationship, strength of autonomy of a department, planning of cross-faculty education and research projects, formulation and operational conditions of the implementation organization, in relation to the foundation spirit, faculty and staff members' morale and school tradition. JCR also confirms enhancement of its risk management system for scandals by faculty and staff members or students, asset management, etc.

(iv) Securing Human Resources and Their Management

JCR sees the characteristics in terms of the number of staff members, age structure, average years of service, pay level, relationship with faculty labor union, etc. together with comparisons with rival schools, while confirming recruitment policy for faculty and other staff members and subsequent training programs for them. JCR also confirms personnel evaluation system, relations between such evaluation system and remuneration/promotion, and present situation of organizational activities such as competency development of faculty and other staff members. In the meantime, quantitatively, JCR pays attention to comparison between the number of faculty members required by the establishment standards and the current number of faculty members, recognition of the level of the number of students per faculty member, efficiency per faculty member, etc.

(4) Ability to Attract Students

Since student fees constitute a large portion of a university corporation's revenue, it is important to analyze the stability of such fees. JCR focuses on trends in applicants for admission and enrolled students for each school. In examination of

these trends, JCR assesses not only factors that have effects directly on financials such as changes in ratio of the number of students enrolled to the number of applicants who have passed the exam, tuition level, and ratio of annual number of incoming students to annual enrollment limit, but also factors including status of use of open campus, enhancement of public relation activities for the entrance examination and visits to high schools, trends in applicants for admission by entrance examination form (general/common test, AO admission, recommendation, etc.) in the medium to long term, competitive strength of its affiliated high schools and entering university from these affiliated high schools as candidates without taking an entrance exam.

(5) Ability for Educational Activities

Educational ability is a driving force for growth of a university corporation and is one of the important factors to judge the future of the university corporation. JCR will confirm whether a framework for constant improvement of educational organizations, curricula, methods, and measurement of educational outcomes has been established and is in operation, based on the evaluation results of each accreditation organization and self-assessment and evaluation reports that form the basis of the evaluation. JCR thinks that it is highly likely that a university corporation with a well-developed management and operational foundation for educational activities has a strong probability of securing highly stable and sustainable cash flows. The points to be focused on are the following: (i) concept of the most recent establishment or reorganization of faculties and departments; (ii) establishment of courses that can promote career planning and its foundation spirit; (iii) course organization in consideration of relations between fulfilling liberal arts education and professional education; (iv) status of systematic school advisory activities for students; (v) trends in the number of dropouts and its background analysis; (vi) trend in students who repeat a year and drop out of school, its factor analysis, control measure, and degree of influence of different types of entrance examinations; (vii) employment rate, career path determination rate, conditions of passing qualifying examinations, and status of evaluation by employers; (viii) establishment and operation of systematic faculty development (FD) and staff development (SD) and considerations for such activities; (ix) status of applications and adoptions of research themes for competitive funds; and (x) establishment of self-assessment system and its improvement.

(6) Ability for Research Activities

JCR thinks that an increase in ability for research activities will lead to acquisition of various research funds. JCR assesses the results of application and adoption of various institutionalized competitive funds, while confirming establishment of cross-faculty and graduate school research system, support for an increase in acquisition of external funds, establishment, maintenance and use of the faculty database. The same applies to collaborative and commissioned research. JCR also confirms faculty evaluation system for an increase in their motivations, reflection of such evaluation in research funds and remuneration for them, and introduction of a tenure system, and further confirms whether the president has the discretion to allocate management resources to promising research projects.

(7) Domestic Cooperation, International Expansion and Social Contribution Activities

With the exception of acquisition of education and research funds, the domestic cooperation, international expansion

and social contribution activities do not directly lead to an increase in revenue, and the cost burden often precedes it. With rapid globalization of society and industry, however, universities are required to contribute to increasing Japan's global competitiveness. At the same time, approaches towards globalization are essential factors for attracting excellent students for universities. Financial support from the government for exchange and cooperation with domestic and overseas educational institutions (and the students) might increase in depth in the future. On the other hand, returning intellectual resources to local residents and contributing to developing local industries can be viewed as activities to fulfill the university's social responsibility and to gain "understanding and support" from stakeholders. JCR therefore confirms these activities from a long-term perspective.

(8) Future Vision, Management Plan and Information Dissemination

Analyses of future vision and management plan are important in terms of rating. JCR comprehensively judges their appropriateness and feasibility, based on various materials related to the management plan, philosophy, policy for its medium- to long-term plan that are interviewed from the management, and implementation status of the short-term action plan. It is necessary for a university corporation to effectively and appropriately disseminate information on its initiatives (1) through (7) above to its stakeholders, and JCR confirms its public relations system, activity performance and plan.

2. Assessment of Financial Base

(1) Revenue Composition and Diversity of Revenue Sources

Since many university corporations rely heavily on student fees for their revenues, JCR assesses status and actual results of their initiatives such as donation solicitation, income-generating projects, and asset management activities from a perspective of diversifying cash flow generation sources. In doing this, JCR will take into consideration acquisition status of external research funds such as grants-in-aid for scientific research that are only partially reflected in its financial statements.

(2) Expenditure Composition and Flexibility of Expenditure Structure

Personnel expense accounts for large part of expenditures of a university corporation. As majority of education and research expenses or administrative expenses are fixed in nature, their expenditure structure is rigid and the break-even point tends to be high. While confirming trends in personnel expense and retirement payment, the key point is how efficiently a university corporation allocates and uses its funds in order to maintain and improve quality of education and research. Specifically, JCR confirms budgeting, management process, existence of management resource allocation system where discretion of the president, faculty deans, etc. can work, trends in revisions to the pay structure, and room for cost reductions through partial outsourcing of business processes.

(3) Asset Management, Management Policy and System

A university corporation accumulates assets systematically to renew its basic assets as its basic financial activity. Therefore, its financial risk is generally low. JCR assesses its financial soundness and endurance by analyzing fullness of reserved assets, soundness of its investment assets, degree of margin and safety of recurring financing, etc. based on its

long-term plan for renewal of facilities. JCR also pays attention to whether a university corporation has established an appropriate securities management system and a risk management system.

(4) Financial Ratio Analysis

JCR not only traces numerical figures or compares financial indicators of a university corporation with those of rival universities, but reads such figures in relation to qualitative factors such as trend in financial support from the government, changes in its business base and shift in management policy to forecast future earnings. Key financial indicators include ratio of ordinary profit (loss) to ordinary revenue and ratio of profit (loss) before transfer to capital funds to revenue. Even if these indicators are low or negative, JCR may sometimes judge that such situation is not considered a problem in terms of rating, as long as these indicators are within a scope of JCR's assumptions based on clear investment policy for its facilities and educational and research policy.

Key financial indicators:

- Ratio of ordinary profit (loss) to ordinary revenue
- Ratio of profit (loss) before transfer to capital funds to revenue
- Ratio of ordinary profit (loss) before depreciation and amortization to ordinary revenue
- Ratio of personnel expense to student fees
- Ratio of interest-bearing debt to ordinary profit (loss) before depreciation and amortization
- Net assets ratio ((total capital funds + profit (loss) carried forward)/total assets)
- The number of applicants for admission
- Ratio of applicants to enrollment
- Ratio of annual number of incoming students to annual enrollment limit, Ratio of number of students enrolled to enrollment limit

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