SPRINGER NATURE Link

Log in

The effect of inside and outside female directors on firm performance: comparison of the First section, Second section, Mothers, and Jasdaq in the Tokyo Stock Exchange Market

Research Article Published: 29 July 2019

Volume 14, pages 123–166 (2020) Cite this article



International Journal of Economic Policy Studies

Hiroaki Niikura orcid.org/0000-0003-2857-2652[1] & Miki Seko[1]

507 Accesses 9 Citations Explore all metrics

Abstract

In recent years, companies in Japan are being encouraged to hire female directors. In 2014, upon the formulation of the “Japan Revitalization Strategy,” the Prime Minister Shinzo Abe said, “we have set a goal that about 30% of leadership positions in the Japanese society be occupied by women by 2020.” The ratio of female board directors in Japan was only 3.4% in 2015, although there has been a gradual increase recently. The purpose of this study is to analyze the effect of female board members on firm performance in Japan; especially, it focuses on the different effects on firm performance of the proportion of the two types of female board members—inside female directors and outside female directors. This paper is the first study to analyze the effect of female board members on firm performance in Japan by considering outside and inside female directors, based on

cross-sectional data covering all companies listed in the four sections of the Tokyo Stock Exchange in 2015 ($N = 3432$). The number of companies in the First section, Second section, Mothers, and Japan Association of Securities Dealers Automated Quotation (Jasdaq) is 1985, 539, 172, and 736, respectively. The empirical analysis uses a two-step least squares method. The theoretical framework is based on the resource-dependence theory, human capital theory, and agency theory, following Carter et al. (Corporate Governance: An International Review 18(5):396–414, 2010). After we carefully control for the endogeneity problem, we find that the ratio of female board members, female inside board members, and female outside board members all have positive effects on the return on equity (ROE) in the First section of the Tokyo Stock Exchange. We conducted a robustness check on dependent variables and an instrumental variable. Even when different performance variables were used, the results were similar to the main results obtained. The effect of the ratio of inside female board members on firm performance is larger than that of the outside female board members.

This is a preview of subscription content, log in via an institution to check access.

Access this article

Log in via an institution

Subscribe and save

Springer+ from €37.37 /Month

- Receive 10 units per month
- Download 1 article/chapter for 1 unit
- Get selected eBooks for 7 units
- Cancel anytime

View plans

Buy Now

Buy article PDF 39,95 €

Price includes VAT (Poland)

Instant access to the full article PDF.

Institutional subscriptions →

Explore related subjects

Discover the latest articles, books and news in related subjects, suggested using machine learning.

Diversity Management and Women in Business | Corporate Governance | Asian Business | Gender Economics | Corporate Finance | Feminist Economics | Gender Diversity in Corporate Governance and Performance

Notes

1. Among the firms used for this analysis, the average number of years of companies listed in the First section is 34 years, but 17 years and 5 years for Jasdaq and Mothers, respectively.

2. Article 644 of the Civil Code stipulates that “a mandatary shall assume a duty to administer the mandated business with the care of a good manager compliance.”

3. On April 19, 2013, Prime Minister Abe made the following request to the economic sphere, at the “Meeting for an Exchange of Views with the Business Community”: “In order to achieve the government’s target of raising the proportion of leading roles filled by women to around 30% by 2020, I’d like to see all listed firms actively appointing women as executives and managers.”

4. On the matter of board of directors being made up of better officers, the Tokyo

Stock Exchange has called for diversity in boards of directors by applying the Corporate Governance Code. The Corporate Governance Code consists of five core (“General”) principles, 30 items detailing these core principles, and 38 supplementary principles that clarify their meanings. Principle 2.4 in the Corporate Governance Code reveals about the attainment of diversity, including the active participation of women, and notes that participation by women contributes to the sustainable growth of a firm.

5. Records cover Japan’s listed companies, including those listed in Jasdaq, and the records are compiled using data from sections covering “corporate governance” and “directors” in security reports. Records span from November 2015 to October 2016.

6. Amongst the total sample of 3413 companies, 31 companies had female CEOs.

References

1. Adams, R. B., & Ferreira, D. (2009). Women in the boardroom and their impact on governance and performance. *Journal of Financial Economics, 94,* 291–309.

2. Ahern, K., & Dittmar, A. (2012). The changing of the boards: The impact on firm valuation of mandated female board representation. *Quarterly Journal of Economics, 127,* 137–197.

3. Ali, M., Ng, Y. L., & Kulik, C. T. (2014). Board age and gender diversity a test of competing linear and curvilinear predictions. *Journal of Business Ethics, 125,* 497–512.

4. Becker, G. (1964). *Human capital*. Chicago: University of Chicago Press.

5. Bøhren, Ø., & Strøm, R. Ø. (2010). Governance and politics: Regulating independence and diversity in the board room. *Journal of Business Finance and Accounting, 37,* 1281–1308.

6. Branson, D. (2012). Initiatives to place women on corporate boards of directors —A global snapshot. *The Journal of Corporation Law, 35*(4), 793–814.

7. Campbell, K., & Mınguez-Vera, A. (2008). Gender diversity in the boardroom and firm financial performance. *Journal of Business Ethics, 83,* 435–451.

8. Carter, D. A., D'Souza, F., Simkins, B. J., & Simpson, W. G. (2003). Corporate governance, board diversity, and firm value. *Financial Review, 38,* 33–53.

9. Carter, D. A., D'Souza, F., Simkins, B. J., & Simpson, W. G. (2010). The gender and ethnic diversity of US boards and board committees and firm financial performance. *Corporate Governance: An International Review, 18*(5), 396–414.

10. Egawa, M. (2017). Shagai Torishimariyaku no Yakuwari—Torishimariyaku kaikaku, josei shagaitorishimariyaku no genjo bunseki-(The Role of Outside Directors—Reform of the Board, Analysis of the Current Situation of Female Outside Directors-). *Shōken keizai kenkyū (Securities Economics Research), 100,* 37–53.

11. Guest, P. M. (2009). The impact of board size on firm performance: Evidence from the UK. *The European Journal of Finance, 15*(4), 385–404.

12. Hafsi, T., & Turgut, G. (2013). Boardroom diversity and its effect on social performance: Conceptualization and empirical evidence. *Journal of Business Ethics, 112,* 463–479.

13. Haslam, S. A., Ryan, M. K., Kulich, C., Trojanowski, G., & Atkins, C. (2010).

Investing with prejudice: The relationship between women's presence on company boards and objective and subjective measures of company performance. *British Journal of Management, 21,* 484–497.

14. Hillman, A., Cannella, J., & Paetzold, R. (2000). The resource dependence role of corporate directors: Strategic adaption of board composition in response to environmental change. *Journal of Management Studies, 37,* 235–255.

15. Hillman, A. J., Cannella, A. A., & Harris, I. C. (2002). Women and racial minorities in the boardroom: How do directors differ? *Journal of Management, 28*(6), 747–763.

16. Jhunjhunwala, S., & Mishra, R. K. (2012). Board diversity and corporate performance: The Indian evidence. *IUP Journal of Corporate Governance, 11*(3), 71–79.

17. Morikawa, M. (2014). "What kind of company are women and foreign directors in? Based on Survey Data Analysis. RIETI Discussion Paper Series 14-J-025. (in Japanese).

18. Nguyen, H., & Faff, R. (2006). Impact of board size and board diversity on firm value: Australian evidence. *Corporate Ownership & Control, 4,* 4–32.

19. Nygaard, K. (2011). Forced board changes: Evidence from Norway. Norwegian School of Economics (NHH), Department of Economics, Working Paper, No. 5/2011.

20. Niikura, H., & Seko, M. (2017). Does female representation in the board influence firm performance?: Evidence from Japan. *Mita Journal of Economics, 110*(1), 1–20.

21. Saito, T. (2015). Torishimariyaku kōsei to Kansayakukai kōsei no kettei yōin (Determinants of the composition of the board of directors and the composition of the board of corporate auditors). Policy Research Institute, Ministry of Finance, Japan “Financial Review” No. 1 (No. 121) pp. 37–52.

22. Shukeri, S. N., Ong, W. S., & Shaari, M. S. (2012). Does board of director’s characteristics affect firm performance? Evidence from Malaysian public listed companies. *International Business Research, 5,* 120–127.

23. Terjesen, S., Sealy, R., & Singh, V. (2009). Women directors on corporate boards: A review and research Agenda. *Corporate Governance: An International Review, 17,* 320–337.

24. Tsujimoto, S. (2013). Women directors and firm performance, Annual Report of the Society for the Economic Studies of Securities, No. 48, pp. 73–90 **(in Japanese)**.

Funding

Funding was provided by the Musashino University Creating Happiness Incubation.

Author information

Authors and Affiliations

Faculty of Economics, Musashino University, 3-3-3 Ariake, Koto-ku, Tokyo, 135-8181, Japan
Hiroaki Niikura & Miki Seko

Corresponding author

Correspondence to Hiroaki Niikura.

Additional information

Publisher's Note

Springer Nature remains neutral with regard to jurisdictional claims in published maps and institutional affiliations.

Appendix

The effect of female directors on firm performance may vary according to industry. In particular, firms that sell women's consumer goods and services are more likely to have an influence on the performance of their women directors. As our data were derived from commercial statistics (Shogyo toukei), we could not identify whether a company was dealing with consumer goods. However, we estimated using data on the retail industry from the Japan Standard Industrial Classification. The result estimated for the retail industry was added to Table 7. As a result, we could not observe the effect of female directors on firm performance.

Table 7 Estimation results (retail industry)

Rights and permissions

Reprints and permissions

About this article

Cite this article

Niikura, H., Seko, M. The effect of inside and outside female directors on firm performance: comparison of the First section, Second section, Mothers, and Jasdaq in the Tokyo Stock Exchange Market. *IJEPS* **14**, 123–166 (2020). https://doi.org/10.1007/s42495-019-00025-x

Received	Accepted	Published
31 December 2018	02 July 2019	29 July 2019
Version of record	Issue date	

29 July 2019 February 2020

DOI

https://doi.org/10.1007/s42495-019-00025-x

Keywords

Female board representation | Firm performance | Tokyo Stock Exchange

JEL Classification

G34 | J16 | M14

Search

Search by keyword or author

Navigation

Find a journal

Publish with us

Track your research