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

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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.

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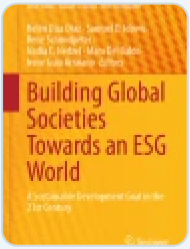

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Notes

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.

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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)

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