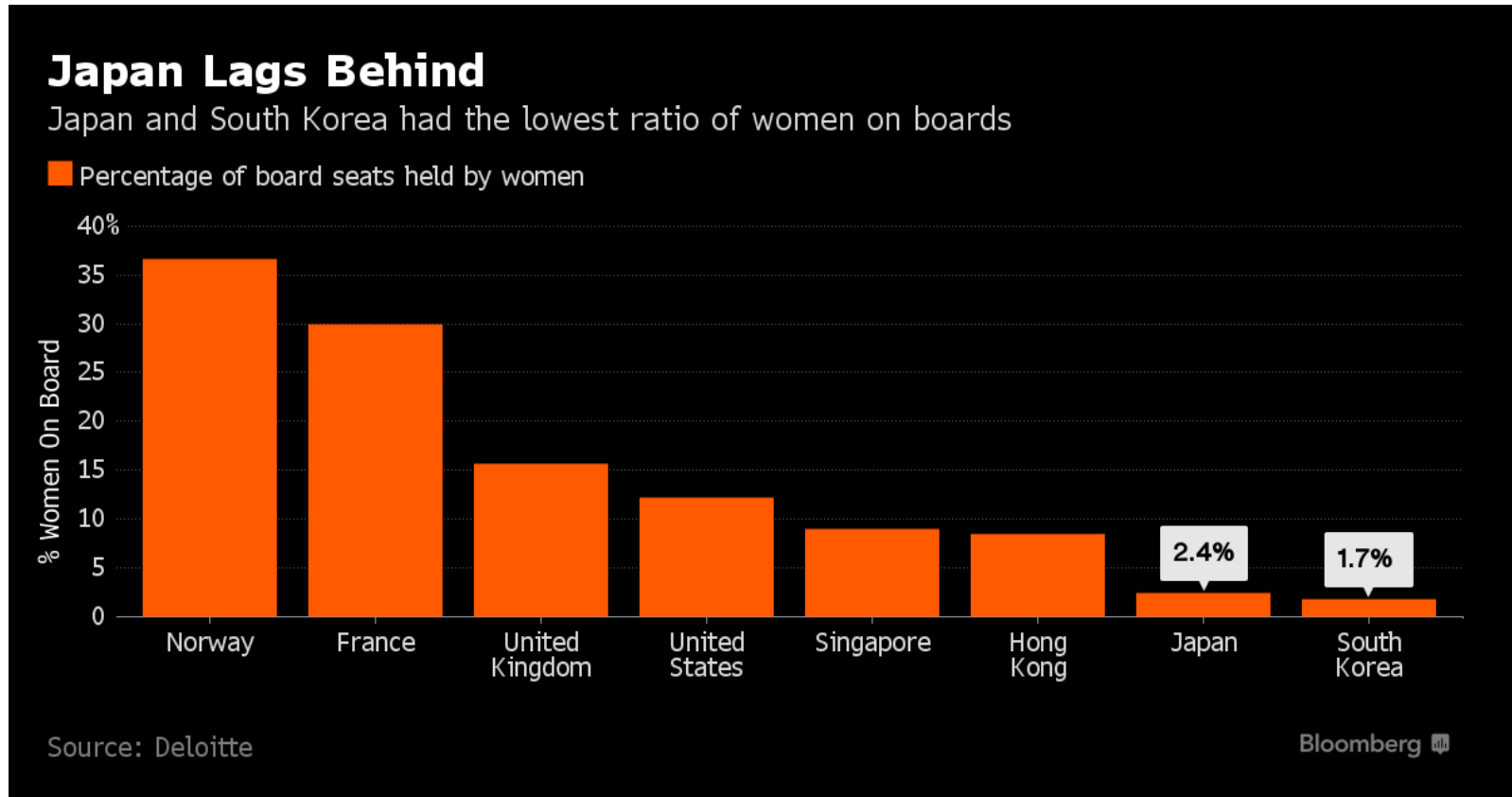


Board diversity in Japan: the role of female director

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- Japan near the bottom of a global ranking of 39 developed economies by Deloitte in 2015 regarding the prevalence of female directors





Why SO FEW female director?

- “Most women here say they don’t want to do it”. “It’s added pressure.” (Yoshiko Shirata, a female board member of PCA Corp. and Win Partners Co.).
Ex. long working hours, many “nominication” lead to difficulty in work-life balance
- Japanese companies 'structure discourages executives from serving on other corporate boards → limiting women gain experience as a director. (Tsukiko Tsukahara, vice president of Catalyst Japan)
- Professionals (lawyers, accountants, professors, ect) → qualified in their fields, but not always significant management experience

How about policymakers and firm’s board’s opinions?

- In 2013, Prime Minister Shinzo Abe announced the plan reviving Japan’s fortunes by increasing women’s participation, named *Womenomics - getting more women into leadership roles*.

Ex. April 2016, a new law “Female Employment Promotion Legislation,” went into effect

→ requires large-scale private & public sector entities to disclose gender diversity targets, accompanied by specific action plans.

→ top-down political pressure would lead to any meaningful change?

→ firm introduced female director for image-building or of it’s real needs? and its effects?

NO available empirical research showing the effects of having female board member in Japan.

The research aims to find out empirical results about the effects of female directors on Firm performance & Firm behavior in Japanese listed firms.

Research Question 1: How firms react to the environmental change regarding introducing female directors?

Research Question 2: Do firms introduce female directors upon their need on performance improvement or for other purposes?

Research Question 3: Effects of female directors on firm performance based on types of introduction motives

- Morikawa (2014): Japanese listed and long-established companies, subsidiaries, and unionized companies tend not to have female directors while owner-managed companies are likely to have female directors and CEOs
- Farrell and Hersch (2005): likelihood of a firm adding a woman to board negatively affected by the number of woman already on the board. The probability of adding a woman is materially increased when a female director departs the board → Adding a director not gender neutral.
 - Women tend to serve on better performing firms
 - Insignificant abnormal returns on the announcement of a woman added to the board. → Women directors not being performance based
 - Corporation responding to either internal or external calls for diversity.
- Ruigrok (2007): Board diversity effects on innovation, i.e. product, process, organizational, and marketing
 - Show evidence of the influence of board diversity on all types of innovation except process innovation.
 - Significant evidence of a positive relationship between gender diversity on boards and marketing innovation, and a negative relationship between gender diversity and product innovation.

- I constructed a database of all listed non-financial firms in Japan from 2004 to 2015 (more than 42,000 firm-year observations)
- The information on the firms' directors and presidents is taken from Yakuin Shikiho (Directors Data) published by Toyo Keizai Inc. This directory reproduces details of female directors with their names, titles, birth of place (some missing data exists), previous and concurrent positions inside or outside of the firm.
- The information on firms is achieved from Nikkei Economic Electronic Databank System (NEEDS) and Corporate Governance Estimation System (CGES) and CSR Ranking Database.

Apart from examining how the female director get on board and their origin/background, the research test the main following empirical questions:

- Hypothesis 1: ROA of the firm increases if first female director(s) introduced to the board are insiders
- Hypothesis 2: Introduction of outside female director correlates more with building corporate image than improving firm performance

Case 1: Women in the top post took over the position from family members



Kumiko Otsuka

President of Otsuka Kagu Ltd

- Daughter of Chairman and Founder: Katsuhisa Otsuka
- Otsuka Kagu Ltd is a nationwide well-known retails furniture and interior decor firm
- Experienced various positions at firm before getting to President post.
 - Office Head Otsuka Kagu Ltd, 4/1994-10/1994
 - General Manager Otsuka Kagu Ltd, 10/1994-3/1996
 - Director Otsuka Kagu Ltd, 3/1996-3/2004
 - President Otsuka Kagu Ltd, 3/2009-PRESENT

Case 2: Built the business from scratch.



- A member of the board and Founder of DeNA. Namba served as the company's CEO since its founding in 1999 until June 2011.
- DeNA is one of the largest mobile social network and mobile game companies in Japan. She stepped down in 2011 to focus on her family and personal life.
- When DeNA got crisis with scandal of plagiarism and copyright violations in 2016 → Namba named a representative director once again

Tomoko Namba

Founder and Executive Chairwoman of DeNA

Case 3: Rose through internal promotion



- Joined Korn Ferry International in 1991
- Worked Senior Client Partner and Regional Managing Director of Japan in Korn/Ferry International.
- In 1995, she was elected a member of the worldwide Board of Directors of the firm.
- An example of over-boarding female director as she serves as outside director/ independent director of many firms at the same time

Sakie T. Fukushima

Chairman of Korn/Ferry
International-Japan

**Independent BoD of Kao,
Sony Benesse, Bridgestone,
Ajinomoto, Mitsubishi
Corp, J. Front Retailing.**

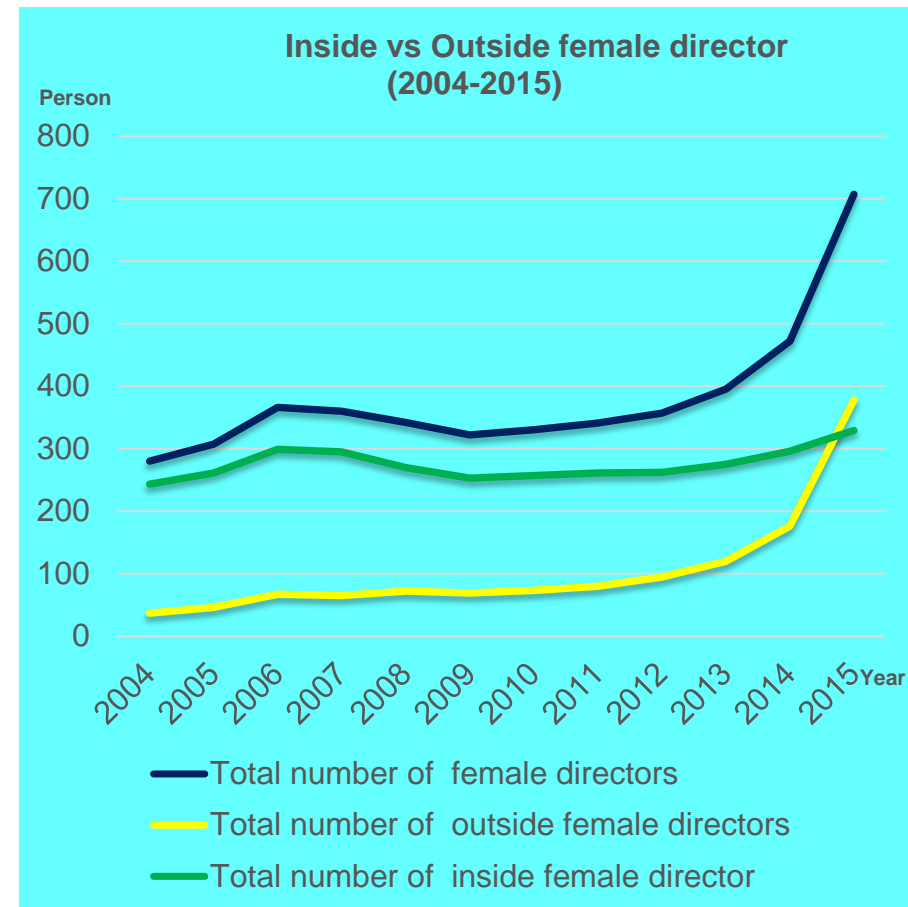
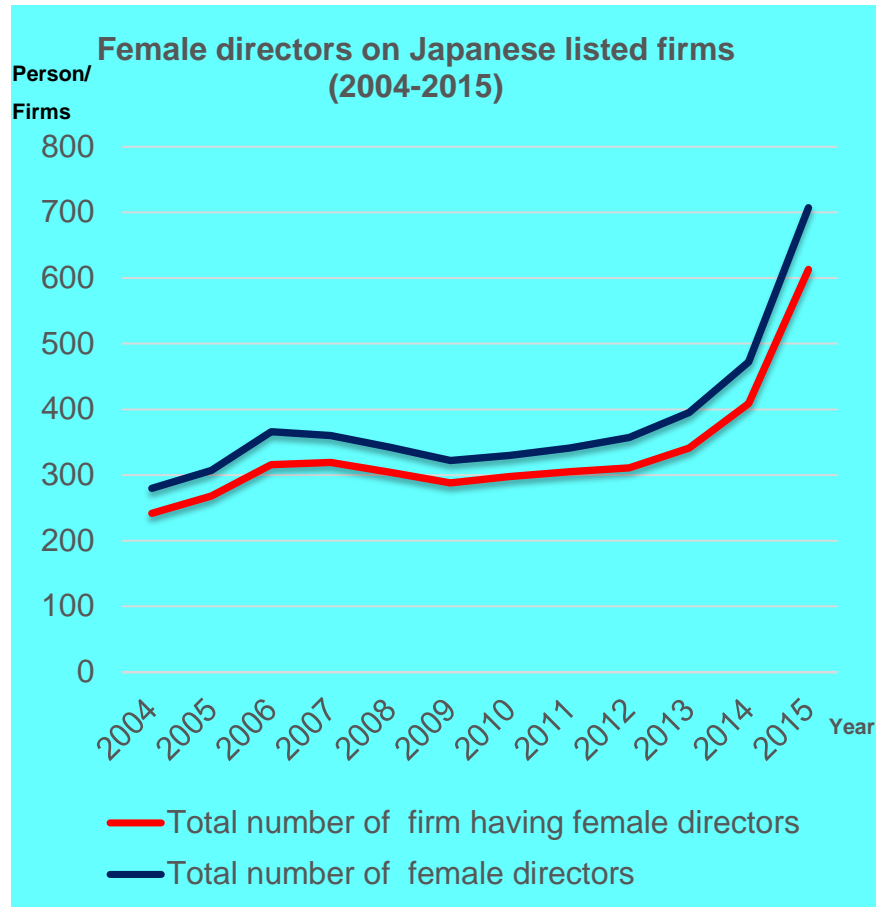
Case 4: Complete outside female director

Case 5: Getting appointed “out of necessity” to fill a vacancy created by their relatives.

Table 1: Summary statistics for female directors

Year	Presence of female directors on the board (dummy)	Number of female directors on the board (person)	Percent of female director on board (%)	Total number of firm having female directors	Total number of female directors	Number of female directors having representative	Total number of outside female directors	Total number of inside female director	Total number of foreign female directors
	Mean	Mean	Mean						
All	0.096	0.110	1.616	4014	4579	512	1278	3301	200
2004	0.07	0.08	1.22	242	280	40	37	243	11
2005	0.08	0.09	1.31	268	307	49	46	261	13
2006	0.09	0.10	1.50	316	366	50	67	299	19
2007	0.09	0.10	1.43	319	360	45	65	295	17
2008	0.08	0.09	1.41	304	342	43	72	270	10
2009	0.08	0.09	1.38	288	322	39	69	253	8
2010	0.09	0.10	1.50	298	330	40	73	257	13
2011	0.09	0.10	1.55	305	341	39	80	261	18
2012	0.09	0.11	1.58	311	357	37	95	262	20
2013	0.10	0.12	1.77	341	395	42	120	275	21
2014	0.12	0.14	2.02	409	472	44	176	296	22
2015	0.18	0.21	2.73	613	707	44	378	329	28

Summary statistics on female director

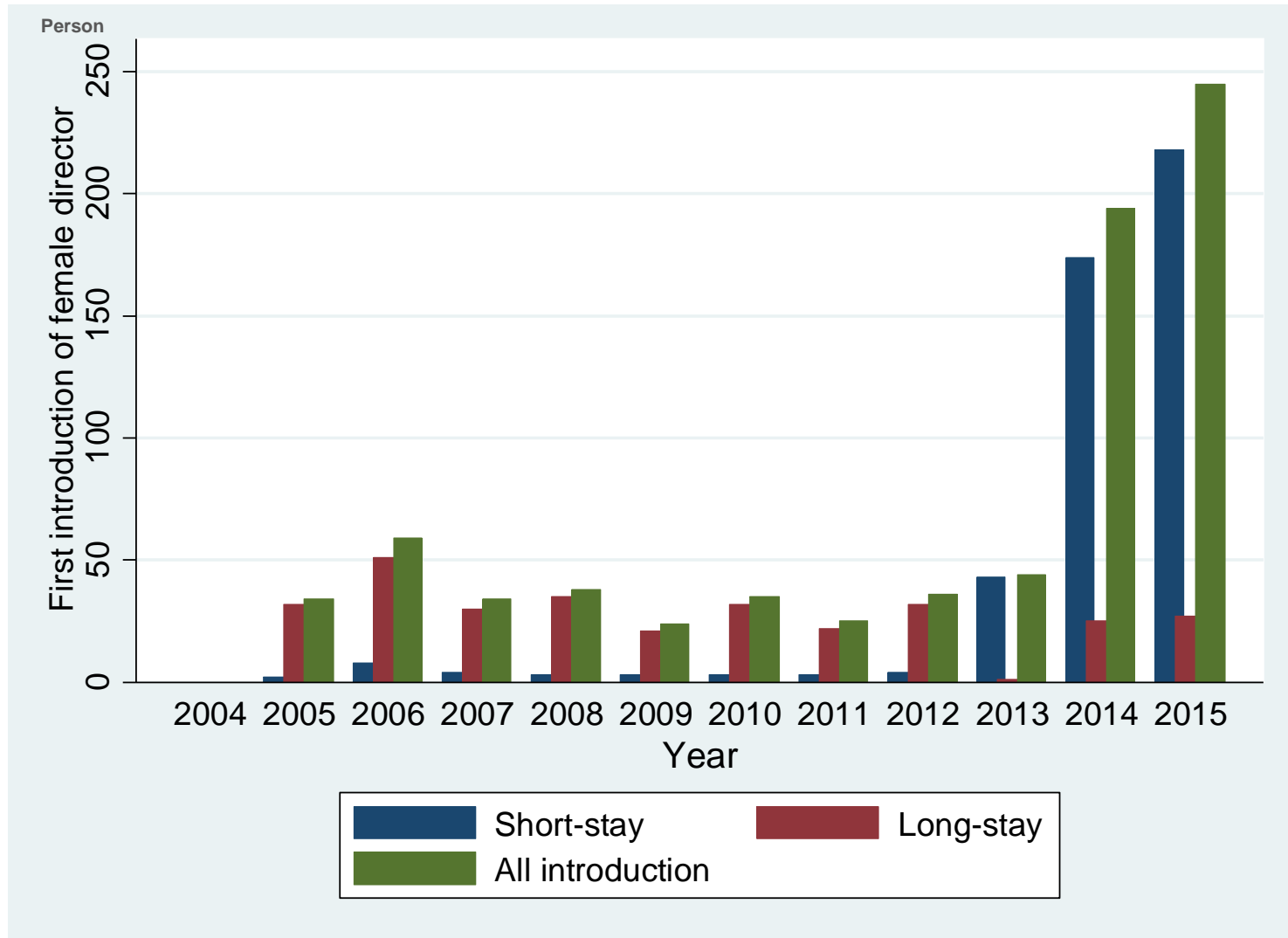


Summary statistics on firms

	All firms			Firms without female director			Firms with female director		
	Mean	Std. Dev.	Median	Mean	Std. Dev.	Median	Mean	Std. Dev.	Median
Total assets (million yen)	194,809	999,880	26,252	180,760	948,928	27,177	327,450	1,385,014	18,382
Total sales (million yen)	310,000,000	1,060,000,000	58,600,000	276,000,000	947,000,000	57,200,000	712,000,000	1,890,000,000	82,800,000
Oversea sales (million yen)	182,000,000	879,000,000	20,800,000	170,000,000	869,000,000	20,400,000	485,000,000	1,060,000,000	29,400,000
Number of subsidiary companies	22.25	59.24	8.00	20.36	47.11	8.00	43.90	133.23	8.00
Number of affiliated firms	6.74	19.47	2.00	6.36	17.97	2.00	10.99	31.40	2.00
Market-to-book ratio	0.75	1.41	0.43	0.72	1.36	0.42	1.06	1.83	0.61
Free cash flow (%)	-2.07	74.46	-0.21	-1.66	19.46	-0.19	-5.89	233.10	-0.39
ROA (%)	5.62	10.91	4.60	5.39	10.59	4.47	7.77	13.34	6.23
Industry ROA (%)	-1.19	10.73	-1.52	-1.31	10.43	-1.59	-0.06	13.19	-0.66
TobinQ	1.26	1.39	0.99	1.23	1.34	0.98	1.54	1.79	1.12
R&D cost	6,793,830	35,700,000	612,083	5,831,518	31,400,000	593,615	21,200,000	73,900,000	974,580
Institutional Ownership	13.31	14.97	7.50	13.16	14.82	7.49	14.68	16.32	7.79
Foreign ownership	8.37	11.51	3.45	8.10	11.09	3.38	10.89	14.71	4.23
Minority ownership	20.83	12.83	18.90	21.08	12.91	19.20	18.45	11.78	16.20
Equity ownership	9.24	16.08	2.24	8.43	15.59	1.95	16.99	18.47	10.96
Employee ownership	2.84	3.51	1.69	2.93	3.57	1.76	1.99	2.69	1.15
Cross ownership	6.63	8.19	3.71	6.92	8.32	4.13	3.80	6.18	0.33
Mainbank ownership	2.98	1.51	2.98	3.02	1.51	3.04	2.52	1.37	2.24
CEO ownership	7.03	12.61	0.79	6.42	12.07	0.67	12.74	15.69	5.10
Outside director ownership	0.09	1.30	0.00	0.07	0.97	0.00	0.26	2.96	0.00
Employee number	3,738	15,497	650	3,491	13,761	660	6,065	26,723	533
Listing duration	25	20	17	26	20	18	17	18	10
Board number	8	3	7	8	3	7	8	3	7
Outside director number	1	1	0	1	1	0	1	2	1
Inside director number	7	3	6	7	3	6	6	3	6
Earning forecast error (%)	-2.72	45.89	-0.15	-2.68	46.46	-0.15	-3.07	39.57	-0.18
CEO tenure	7	8	4	7	8	4	9	10	5
M&A involvement	0.02	0.31	0.00	0.02	0.31	0.00	0.02	0.31	0.00

Firms of big size, high equity ownership and CEO ownership tend to have female directors on board

Year	Total number of first female introduction	Total first-introduced female staying on board MORE THAN one year	Total first-introduced female staying on board ONLY one year
All	773	308	465
2005	34	32	2
2006	59	51	8
2007	34	30	4
2008	38	35	3
2009	24	21	3
2010	35	32	3
2011	25	22	3
2012	36	32	4
2013	44	1	43
2014	199	25	174
2015	245	27	218



Logit regression of the probability of introducing female directors (for all)

➤ Dependent variable is the introduction dummy, equals one when firm first introduced female directors

➤ Firm-years subsequent to the introduction year are dropped

-

Dependent variable=	Introduction of female directors		
	Coef.	Robust Std. Err.	z
Log (total sales)	0.994	0.238	4.17
Affiliated firm	0.003	0.002	1.55
Institutional ownership	-0.001	0.025	-0.05
Foreign ownership	-0.030	0.036	-0.83
Equity ownership	0.217	0.059	3.71
Market-to-book ratio	1.302	1.888	0.69
Free cash flow	0.038	0.051	0.73
ROA	0.133	0.126	1.06
IndustryROA	-0.148	0.125	-1.18
TobinQ	0.000	0.000	1.23
CEO ownership	-0.100	0.074	-1.35
Number of outside directors	0.652	0.142	4.61
Industry dummy	Yes		
Year dummy	Yes		
Pseudo R2	0.1354		
Number of obs	14563		

- Firms react rationally to the change of law regarding the appointment of female to board
- There are symptoms of “trial and fail” as firms rush to introduce female directors
- Firms with big size, high equity ownership, high outside director ratio tend to have/introduce female directors on board.
- Research on progress with:

Using the group “long-stay” female director to check:

Hypothesis 1: ROA of the firm increases if first female director(s) introduced to the board are insiders

Using the group “short-stay” female director to check:

Hypothesis 2: Introduction of outside female director correlates more with building corporate image than improving firm performance

**Thank you very much for your
attention!**



JSPS

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