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研究課題名（和文）Effects of foreign directors on firm performance: Evidence from Japan.

研究課題名（英文）Effects of foreign directors on firm performance: Evidence from Japan.

研究代表者

グエン・ティ・フォン タン (Nguyen, Thi Phuong Thanh)

早稲田大学・産業経営研究所・その他（招聘研究員）

研究者番号：60791928

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研究成果の概要（和文）：本稿では、2004年から2015年までの日本の非金融上場企業のパネルデータを用いて、外国人取締役が企業業績に与える影響を検証する。その結果、外国人取締役と企業業績との関係は概して強くないことが分かった。外国人取締役を最初に導入した場合、市場はポジティブに反応するように見えるが、そのリターンは統計的に有意ではない。また、外国人取締役の初回就任が企業パフォーマンスを向上させるという証拠も見いだせなかった。

研究成果の学術的意義や社会的意義

This research fills the research gap by examining the effects of foreign directors on firm performance in a bank-based economy, stakeholder corporate model. It hence acts as meaningful references to investors, corporate executives, and policymakers adjusting diversity policies.

研究成果の概要（英文）：This paper examines the effects of foreign directors on firm performance using panel data of nonfinancial listed firms in Japan from 2004 to 2015. We find that the relationship between foreign directors and firm performance is generally not strong. While the market appears to react positively to the first introduction of a foreign director, the returns are not statistically significant. The first introduction of a foreign director is significantly associated with changes in ownership structure or business strategy aimed at expanding overseas business and strengthening corporate governance. Nevertheless, we also obtain no evidence that the first appointment of a foreign director improves firm performance.

研究分野：Corporate governance

キーワード：Foreign directors Corporate governance Firm performance Japan

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## 1 . 研究開始当初の背景

This research addresses the evolving patterns of corporate governance among Japanese corporations since early the 2000s up to 2015, focusing on empirically measuring the effects of board nationality diversity on firm performance.

Worldwide, there is a large literature examining the effects of board diversity but literature mainly uses data from European or US firms, several research questions remain unanswered. The United States and the United Kingdom are regarded as shareholder economies where the governance by shareholders is dominant and the pressure from the stock market is large. Boards of directors, therefore mainly act as a mechanism of shareholder protection (Shleifer and Vishny, 1997). Literature so far shows that board gender and nationality diversity have a positive relation with firm performance in countries with stronger shareholder protection and stock market-based economies. (Post and Byron, 2015; Khan and Vieito, 2013; Estelyi and Nisar, 2016).

Problematically, there are few existing empirical studies concerning the effects of foreign directors on firm performance, and to date, the results from those that do exist are mixed. Studies using data from Asian firms are few. Overall, the question about the effects of board nationality diversity on firm performance remain unanswered in the economic context deviating from shareholder-orientation. This research therefore aims to fill the research gap by examining the effects of foreign directors on firm performance in a bank-based economy, stakeholder corporate model while seemingly deviating from the stock-based, shareholder-orientation economies found in the U.S. and the U.K. The results will help to deepen the understanding of Japanese firms and hence act as meaningful references to investors, corporate executives, and policymakers adjusting diversity policies, thus highlighting relevance to the Japanese economy.

## 2 . 研究の目的

The purpose of this paper is to measure the effects of foreign directors on firm performance, an aspect of board composition that has hitherto received little attention. The theoretical and empirical literature highlights the important role played by the board of directors in corporate governance and firm performance via its monitoring and advising functions (John and Senbet, 1998; Hermalin and Weisbach, 2003; Adams and Ferreira, 2007; Guner et al., 2008; Adams et al., 2010; Hermalin and Weisbach, 2017). One factor potentially affecting board effectiveness is its composition (Dahya and McConnell, 2007), which has been explored in studies of European and US firms (Oxelheim and Randøy, 2003; Masulis et al., 2012; Estelyi and Nisar, 2016; Miletkov et al., 2016). In this study, we provide new empirical evidence on this topic using data of Japanese firms.

There are several advantages in using Japanese data. First, the most important is that we can examine the effects of a special sample relating to the first introduction of foreign directors, which refers to the situation where a foreign director was appointed to a previously all-Japanese board for the first time. This has not been possible in studies elsewhere as the firms in their samples typically introduced their first foreign director many years before (Oxelheim and Randøy, 2003). In contrast, Japanese corporations have been very slow in globalizing their boards with many only recently introducing their first foreign director.

Second, it is well known that the boards of directors in large Japanese firms are quite homogeneous and dominated by male directors (Kubo and Nguyen, 2021). As discussed later, there are also very few foreign directors. Therefore, the impact of having a foreign director may be greater in Japan than in Western countries where it is not uncommon to have more diverse boards.

Third, Japan has a unique corporate governance system comprising bank-based, relationship-oriented, and network-, insider-, and stakeholder-coordinated characteristics (Aoki et al., 2007; Hirota, 2015), with boards of directors often considered as boys' clubs in comprising mostly inside directors (Saito, 2011). This context is very different from those presented in the existing literature. In addition, recent corporate governance reforms in Japan act as a catalyst for researchers to examine the effects of board diversity on firm performance (Sako and Kubo, 2019; Tanaka, 2019; Morikawa, 2020; Nguyen, 2021) in a

system where little is known about the potential impact of board diversity.

### 3 . 研究の方法

We use several well-known databases in Japan to construct our research sample. Information on firms and boards of directors is from the Director Database of Toyo Keizai (Directory of Directors) provided by Toyo Keizai Inc. Information on firm corporate governance and financial performance is from the Nikkei NEEDS Corporate Governance Evaluation System (CGES) provided by Nikkei Inc. and the Corporate Financial Databank supplied by the Development Bank of Japan. We exclude financial and utility firms from our sample as these employ different performance measurement ratios to firms in other industries. Supplementary data sources include Nikkei Value Search, Astra Manager, and the individual company homepages. Using these data, we obtain unbalanced panel data for all nonfinancial listed firms in Japan from 2004 to 2015 representing some 41,900 firm-year observations.

Our primary research novelty lies in the comprehensive data we obtain about foreign directors in Japan, including details on their nationality, education background, working experience, and history of board appointments, which we manually collect from all available data sources. Following Oxelheim and Randøy (2003), Miletkov et al. (2016), and Estelyi and Nisar (2016), we define a foreign director as one whose nationality is not Japanese. We use four steps to correctly identify each director's nationality. First, we use information from the Directory of Directors to identify foreign directors by short-listing names in katakana, the Japanese syllabary used to record foreign names in unique Japanese characters.

Second, we review nationality using the birthplace of each director. By doing this, we not only confirm the nationality of directors with names recognized using katakana in the first step, but also update the database with foreign directors of Korean, Chinese, and Taiwanese nationality whose names, like Japanese names, employ kanji characters. Third, we examine the education background of each director to identify where they completed their undergraduate and graduate education. This is important as we wish to identify the pure foreign characteristics of directors whose origin, culture, mind-set, and education are not associated with the Japanese system. Therefore, we exclude foreign (Japanese) directors born, raised, and educated in Japan (overseas).

Finally, and in the most time-consuming step, we update the missing data on nationality, birthplace, university, and working experience by hand by searching for information on Nikkei Value Search, the company homepage and LinkedIn. Eventually, we obtain 1,771 firm-year observations for foreign directors and 947 individual foreign directors holding 3,190 separate directorships during the sample period.

The econometric methods used for data analysis include Probit and Tobit regressions, Ordinary Least Square, Fixed effects, instrumental variable two-stage least squares, propensity score matching (PSM) difference-in-difference (DiD) estimation and event study.

### 4 . 研究成果

In terms of descriptive findings, we reveal that foreign directors make up only 4.24% of Japanese corporate boardrooms, a figure much smaller than the 13% of boardrooms in Norwegian and Swedish firms (Oxelheim and Randøy, 2003), the 15% reported in the dataset of Miletkov et al. (2017) covering 80 countries between 2001 and 2011, and the 18% reported for US firms between 1998 and 2006 in Masulis et al. (2012).

Concerning the relation between foreign director presence and firm performance, we find that the effects of foreign directors on a firm's operating performance are negative. We specify the return on assets (ROA) and Tobin's Q as proxies for firm performance and conclude that the estimated coefficients for a foreign director dummy variable are negative and statistically significant with ordinary least squares (OLS), fixed effects, and instrumental variable two-stage least squares (IV 2SLS) regressions. When we measure the before and after performance changes of firms appointing their first foreign director and compare them with the control group, we obtain no evidence from propensity score matching (PSM) difference-in-difference (DiD) estimation that the first appointment of a foreign director improves firm performance. We also apply an event study approach and calculate the cumulative abnormal returns (CARs) of all firm announcement events concerning first

foreign director appointments. The results there demonstrate that the announcement of first foreign director appointments is associated with positive abnormal returns, but these are not statistically significant.

We also examine the determinants of having foreign directors on board based on the intrinsic characteristics of firms and find that firms with foreign directors on their boards have more foreign sales, higher foreign ownership, greater R&D investment, and larger board sizes with more outside directors than firms without foreign directors. In addition, the first introduction of a foreign director is typically associated with changes in ownership structure and/or business strategy used to expand overseas business or strengthen corporate governance. For these and other reasons, this study addresses an important research gap by providing new empirical evidence that nationality diversity is not associated with improving firm performance in the context of Japanese firms.

5. 主な発表論文等

〔雑誌論文〕 計1件（うち査読付論文 1件 / うち国際共著 1件 / うちオープンアクセス 0件）

1. 著者名 Thanh Thi Phuong Nguyen; Hanh Minh Thai	4. 巻 53
2. 論文標題 Effects of female directors on gender diversity at lower organization levels and CSR performance: Evidence in Japan	5. 発行年 2022年
3. 雑誌名 Global Finance Journal	6. 最初と最後の頁 -
掲載論文のDOI（デジタルオブジェクト識別子） なし	査読の有無 有
オープンアクセス オープンアクセスではない、又はオープンアクセスが困難	国際共著 該当する

〔学会発表〕 計2件（うち招待講演 0件 / うち国際学会 2件）

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2. 発表標題 Foreign director and Firm Performance in Japan
3. 学会等名 The JFA-PBFJ Special Issue Conference by Japan Finance Association（国際学会）
4. 発表年 2022年

1. 発表者名 Nguyen Thi Phuong Thanh
2. 発表標題 Foreign director and Firm Performance in Japan
3. 学会等名 International Corporate Governance Society（国際学会）
4. 発表年 2020年

〔図書〕 計0件

〔産業財産権〕

〔その他〕

6. 研究組織

氏名 （ローマ字氏名） （研究者番号）	所属研究機関・部局・職 （機関番号）	備考
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7. 科研費を使用して開催した国際研究集会

〔国際研究集会〕 計0件

8 . 本研究に関連して実施した国際共同研究の実施状況

共同研究相手国	相手方研究機関
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