Female Board of Directors and Organisational Diversity in Japan

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Understanding institutional change in Asia: a comparative perspective with Europe
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ABOUT THE INCAS PROJECT

INCAS is a Marie Skłodowska-Curie Actions R.I.S.E funded project under the European Commission's H2020 Programme.

The project INCAS aims at creating a top-level research and advanced training network on institutional change in Asia, in comparative perspective with Europe.
The coordinator, Ecole des Hautes Etudes en Sciences Sociales (France), promotes this network together with Oxford University (UK), Freie Universität Berlin (Germany), and in collaboration with Waseda University (Japan). The aim of the proposed mobility scheme is to give birth to a European consortium and network of faculties and advanced graduate students specialized in the comparative analysis of institutional change in Asia and Europe. The partners have chosen Japan as a reference point because of its comparability with Europe as shown by previous studies, its historical influence on development and further institutional changes in Asia, and the expertise accumulated within our research team.

Analyzing current economic dynamics in Japan and later expanding this analysis to other Asian countries promises to generate insights that might be help to better understand challenges for Europe and to prepare relevant policy proposals. Our purpose is to compare the results obtained in the case of Japan and few other Asian countries (South Korea, Taiwan, China, and possibly Thailand, after having checked the data availability), not only to previous results on Europe but also to original results we will get on European countries (primarily France – which will be our reference country in Europe – and then the UK, Germany, and Italy) in mobilizing new historical data and applying our theoretical framework.

Female Board of Directors and Organisational Diversity in Japan

Abstract

Enhancing gender diversity on boards of directors is an important policy agenda across societies. Despite being the third largest economic power in the world, the proportion of female members on boards of directors in Japan was only 3 per cent in 2016, which is one of the lowest among the OECD countries. This paper examines the data of listed firms in Japan, and explores the impact of institutional change on organisational diversity in terms of gender diversity on boards. In particular, it focuses on analysing the institutional pressure which Japan has been recently undergoing: financialisation and incremental regulatory reform. It is found that firms take institutional change as an incentive to relieve institutional pressure. Whilst increasing foreign investors and new policies encourage independence and gender diversity on boards, Japanese firms relieve both pressures by appointing female directors as outside directors after regulatory reform. Further, it is also found that firms have persistence in maintaining their corporate governance systems even when they are transforming their systems. Firms that implemented a more independent board structure do not necessarily nominate female board members, because the implementation of a more independent system complements board gender diversity.

Key Word
Japan, Institutional Change, Female Board of Directors, Diversity, Financialisation

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1. Introduction

Firms are increasingly being called upon to align their corporate governance practices with international standards. Current corporate governance practices are the result of long-term consequences of institutional features, such as regulations, the ownership structure of the market and firms, and their relationships with stakeholders and shareholders (La Porta *et al.* 1997, 1998). Institutional change can not only force convergence of corporate governance practices towards international standards, but also provide a means to transcend institutional constraints by giving an impetus to overcome path dependence (Clark and Wójick 207; Dixon 2011). Accordingly, organisational diversity among firms is observed due to differing outcomes occasioned by the varied responses of firms to institutional change (Streeck and Thelen 2005), and this paper highlights the on-going responses of firms and the amendments of their corporate governance practices in response to institutional change.

Among international standards of corporate governance practices, appointment of female members of boards of directors has become one of the central policy agendas of corporate reform across societies (European Commission 2016). Gender diversity at the top of the corporate structure is critical not only because of effective governance (Terjesen *et al.* 2016) but also because pursuing inclusive economic growth for women is increasingly important for society (OECD 2016). The policy of enhancing the appointment of female participation on boards varies across the world; many of the Scandinavian and EU countries had more than 20% by 2015, by requiring gender quotas for appointments to exceed a certain proportion of female directors among listed firms. The UK and the US do not have such quotas but their proportion of female board members among listed firms were 23% and 18% in 2015 respectively (Gender Equity Bureau Cabinet Office 2017).

This paper explores gender diversity on boards in Japan. It is the third largest market in the world, and there are many globally recognised Japanese firms, although certain firms have come under scrutiny in several recent corporate governance scandals. Recently, corporate reform has become one of the priority policy agendas, and one of the policy recommendations is to enhance female labour participation (Gender Equity Bureau Cabinet Office 2017). The Japanese government set up a goal of increasing the share of women in leadership positions to 30% by 2020 (Gender Equity Bureau Cabinet Office 2011); however, the Global Gender Gap Index ranked Japan 111th, just above Cambodia, and one of its indicators, economic participation and opportunity, ranked 118th among 144 countries in 2016 (World Economic Forum 2016). Approximately 60% of female workers withdraw from the labour force after having their first child (OECD 2013). The proportion of female board of directors in Japan was 3.4% in 2016; even though this proportion has more than doubled since 2012, when women held only 1.6% of seats on boards of directors, it is still one of the worst among the OECD countries, second from the bottom, above South Korea (Gender Equity Bureau Cabinet Office 2017; OECD 2017).

The overall aim of the paper is to address the following research question: What role is played by incremental institutional change in organisational diversity, in terms of gender diversity on boards? Diversity among Japanese firms can be observed in on-going institutional change; hence, the evolving change should be analysed through the complex process of incremental changes (Lechevalier 2007, 2014). Japan has been undergoing institutional pressure through structural change, such as financialisation and regulatory reform (Jackson 2016). Financialisation refers to the greater role of finance to lead systematic change (Boyer 2000) with an increased shareholder value orientation (Van Treeck 2009; Van der Zwan 2014). The major change in the Japanese financial market has been the increasing ownership by foreign investors on the Tokyo Stock Exchange (TSE), which is almost 27% in 2016 (Tokyo Stock Exchange 2017). Foreign investors have been influencing corporate governance practices through the interplay with Japanese firms. Further, under the recent regulatory reform, the corporate act was amended and the Corporate Governance Code was implemented.

This paper utilises the firm-level data of corporate governance practices and financial statements of listed firms in Japan in 2016, as well as the data of attributes of recently nominated female board members. This paper focuses on examining the characteristics of firms appointing female board of directors by utilising the latest available data. In analysing the recent trend to appoint females to boards of directors in Japan, it is particularly important to capture the impact of the latest institutional change, including regulatory and policy changes, such as the amendment of the Companies Act in 2014 and the introduction of the Corporate Governance Code in 2015. These changes can be together considered as an important factor impacting on Japanese corporate governance practices, particularly those of board structure; hence, this paper tries to approach the issue of female appointment to boards of directors taking into account these changes.

The findings of this paper are two-fold. First, it is found that firms take institutional change as an incentive to relieve institutional pressure. Japanese firms have been put under pressure by foreign investors and by new policy and regulatory reform, in terms of independence and gender diversity on boards. By appointing female directors as outside directors, Japanese firms release both pressures related to independence and gender diversity on boards. Second, it is found that firms persist in maintaining their corporate governance practices even as they make changes to other governance systems. It is shown that a more independent board structure does not necessarily encourage the appointment of female board members, because the implementation of a more independent system complements board gender diversity, and sends a signal that the firm has made more of an effort to innovate in their governance system compared to more traditional competitor firms, and hence undermines the incentive to appoint female board members.

This paper seeks to contribute to comparative capitalism and corporate governance literature. It suggests that greater diversity among firms is observed in the gender diversity of boards, even though the policies by the government seem to support convergence to global standards in increasing the proportion of female directors. The finding of organisational diversity supports the emerging literature that addresses the gap in the comparative capitalism literature that emphasises the diversity of firms due to different degrees of adoption of global systems. Further, the increasing nomination of female members of boards of directors is a recently emerging phenomenon, and the existing corporate governance literature tends to narrowly examine the characteristics of firms which appoint female board members. This paper fills the gap from a broader perspective of institutional change, by providing the case of Japan, which has not been argued much despite the huge gender gap and its unique institutional environment.

This paper is organised as follows. Section 2 describes the background and builds hypotheses. Section 3 presents the data and methodology. Section 4 provides the results of the analysis. Finally, Section 5 concludes this study with a discussion.

2. Background and hypotheses development

Analysing institutions is one of the mainstream approaches to explore corporate governance practices across societies (Aguilera and Jackson 2003). The comparative capitalism literature sees institutions as incentives and constraints on firms (Hall and Soskice 2001; Jackson and Deeg 2008). Early studies in the comparative capitalism literature focused on stylized facts, categorising the world into two systems; liberal market economy, characterised by strong shareholder rights, short-term capital financing, a flexible labour market, and dispersed ownership: and coordinated market economy, distinguished by weak shareholder rights, long-term debt financing, a fixed labour market, and blockholder ownership (Hall and Soskice 2001). Even though these stylized facts provide a useful framework for analysing the world economy, the comparative capitalism literature neglects institutional change and diversity within a national typology (Jackson and Deeg 2008). In order to fill that gap in comparative capitalism literature, this paper examines organisational diversity under recently emerging institutional change, namely, financialisation and incremental regulatory reform.

2.1 Financialisation and its impact on Japanese firms

Financialisation is a major force in reshaping political-economic structures around the world, by breaking down path dependence at the sub-national level (Clark and Wójcik 2007). Firms need to take into account increased shareholder value (Van Treeck 2009) and they are under pressure by shareholders to adopt business practices promoting shareholder value (Van der Zwan 2014: 107). As such, financialisation has created new forms of interplay between firms and shareholders through shareholder activism, leading to a strengthening and proliferation of calls by globally active shareholders to promote international standards of corporate governance. Shareholder activism is the interplay between firms and shareholders, through public means such as shareholder proposals (Gillan and Starks 2000), proxy voting (Saito 2012), as well as private means such as shareholder engagement (Jacoby 2007).

Traditionally, domestic shareholders in Japan have not been active in exercising voice, because Japanese firms have relied heavily on bank financing with strong ties with main banks (Aoki and Dore 1994; Dore 2000). Hence, shareholder activism is relatively new for Japanese firms. It is argued that Japanese shareholders are not likely to oppose firms' corporate governance issues unless there is an issue of poor financial performance, whilst Anglo-American investors tend to exercise proxy voting on governance issues independent of financial performance (Ishida 2012). In Japan, proxy advisory groups have agreement with many foreign institutional investors for proxy voting; hence, their policy of proxy voting directly impacts Japanese corporate governance practices. For example, the most frequent request by foreign investors has been for independence of the board in Japan (Tokyo Stock Exchange 2011). To this end, proxy advisory groups in Japan introduced stricter policies regarding standards for board independence, and voted against management proposals if the company does not have any outside directors (ISS 2012). As such, foreign investors' proxy voting has become a commonplace means to request changes to Japanese corporate governance practices (Saito 2012).

Further, shareholder engagement by Anglo-American institutional investors has been increasingly important for Japanese firms, which has been accelerated since the implementation of the Stewardship Code in 2014. Since shareholder engagement is not conducted in public like proxy voting or shareholder proposals, engagement activities by Anglo-American investors can be considered similar to the role played by Japanese main banks (Aoki 2014) in terms of developing dialogues with investee firms on their corporate governance issues. For example, Anglo-American pension funds, such as the California Public Employees' Retirement System (CalPERS), have been powerful in exercising voice across the world since the 1990s, and they had been particularly active in Japan until the early 2000s, even though it has been less active in recent years due to the high cost of engagement (Jacoby 2007). Clark *et al*. (2015) analysed the case of shareholder engagement by a large UK institutional investor with Japanese firms, and argue that corporate governance issues are the most frequent subject of engagement, including requests on independence and board gender diversity. Foreign investors in Japan also engage collaboratively with Japanese public authorities on market-wide corporate governance issues at the policy level.

When considering the impact of financialisation and associated requests by foreign investors in Japan, it is expected that firms with a higher proportion of foreign ownership will be more eager to appoint female board members. The relationship between board independence and foreign ownership has been analysed in the corporate governance literature, and it suggests that larger firms tend to undertake a greater degree of change in corporate governance practices, mainly dependent upon their level of foreign ownership and concomitant heightened exposure to international public scrutiny (Miyajima 2007). It is expected that similar arguments can be applied to the issue of female membership of boards of directors, and the first hypothesis can be stated as follows:

H1: Firms with higher foreign ownership are likely to appoint female board members.

2.2 Corporate governance regulatory reform

The reform of corporate governance practices has been conducted by adopting 'best practices' suggested by Anglo-American countries. Aoki *et al*. (2007) explored Japanese firms in the process of transforming their traditional corporate governance systems, and argued that organisational diversity is observed in their corporate governance practices in terms of differing levels of adoption of international standards or maintenance of traditional governance practices. Many Japanese firms still, in many respects, rely on a lifetime employment system and their labour turnover rate is lower than that in Anglo-American countries. Hence, even though outside directors have been recently nominated among Japanese firms, traditional firms claim that there is not a large enough pool of general managers in Japan to serve as outside directors in the same way as in Anglo-American markets (Saito 2016). As such, whilst firms are embedded in institutional complementarities so that multiple institutions function effectively together (Aoki 2001), firms still need to implement the new practices required by regulatory and policy reform, in addition to their past practices.

Under financialisation, the importance of shareholder engagement has drawn attention at the policy level across the world, as observed in the implementation of the Stewardship Code, which enhanced dialogue between shareholders and firms. The first Stewardship Code was published in the UK in 2010, as a complement of the Corporate Governance Code, both of which are established for spreading board-level best practice (Financial Reporting Council 2015). Since then, similar codes have been implemented in many countries, including Japan. Under the Abe administration, corporate reform has been one of the priority policy agendas, and the Corporate Governance Code was announced, its implementation based on the UK code, in 2014. The Japanese code does not explicitly request to increase female membership of boards of directors[1] but it requires board independence via nomination of at least two outside directors. The government has set a goal of increasing the share of women on boards to 10% by 2020 (Gender Equity Bureau Cabinet Office 2011), but this would seem difficult to achieve, as the proportion of female membership of boards of directors was 3% in 2016 and gender quotas do not seem to be required.

Moreover, there was an amendment to the Companies Act in 2014, and firms can now choose their governance systems according to three procedures: the least traditional system is called the Nominating Committee System, which separates the role of board members responsible for management oversight and executive managing directors conducting business operations, inspired by the Anglo–American corporate governance system; the most traditional system is called the Company Auditors System, where the role of auditors is not in the formal decision-making process, this being the

1. The Corporate Governance Codes in 16 countries encourage nomination of female directors, and 14 countries require gender quotas for listed firms (Terjesen 2016).

original Japanese system; and the other system is in-between, called the Audit Committee System, and operates as a kind of combination of the other two systems. It is expected that firms that have implemented a more independent corporate governance system will be more sensitive to new policies and keen to innovate their board structure and thus to appoint more female board members. Accordingly, the second hypothesis can be stated as follows:

H2: Firms with a more independent corporate governance system tend to nominate female board members.

2.3 Female board members and independence of the board

The term 'glass ceiling', describing the challenges faced by women in firms to access leadership positions, is often used; however, there has been an increasing consensus on the benefits of gender equality in decision-making of firms not only for firms but also for society (OECD 2016). From firm perspectives, it is argued that female board members are considered to bring a new perspective in strategy-making that contributes to problem-solving by correcting information biases (Francoeur *et al.* 2008), because boards with more women are more open to public disclosure (Gul *et al.* 2011). Also, as can be argued in the context of agency theory, female board members are expected to bring changes in the way women work (Terjesen *et al.* 2009), especially in a country like Japan where the gender gap is relatively high. As such, from the perspective of the gender equality of society, the underutilised talent pool of qualified women has the potential to boost an economy's inclusive growth (OECD 2016).

Much of the literature on female board members is closely related to the argument of board independence, by looking at the relationship between firm performance and board independence or diversity (e.g. Campbell and Minguez-Vera 2010; Kang *et al.* 2010; Gul *et al.* 2011; Lukerath-Rovers 2013). Their geographical focus is the US and Europe, and they argue for a correlation in the relationship between firm performance and board structure, including board independence and gender diversity. In general, they agree that there is a positive relationship between greater board gender diversity and better financial performance of the firm. Terjesen *et al.* (2016) conducted a multi-country study by using the 2010 data, including 543 Japanese listed firms, their findings suggesting that greater board gender diversity is positively associated with board independence and tends towards better financial performance. There is, however, little literature focusing on the Japanese context. Morikawa (2014) examined the determinants of firms which nominate female board members by using the data of both listed and non-listed firms up to 2012. It argues that the firms with larger board size tend to appoint female board members, and that older firms or firms with parent companies tend not to enhance board gender diversity. It also argues that the level of foreign ownership and the size of firms do not have a statistically significant relationship with board gender diversity. As the data includes non-listed firms and it is up to 2012, before the drastic corporate governance regulatory reform in Japan, the relevance of the findings needs to be examined.

Even though these literatures focus on examining the characteristics of firms appointing female board members, the attributes of female board members have been less discussed. Table 1 shows the evolution of female board members and independence of boards. Panel A shows the total number of outside directors and the number of firms which nominated outside directors, and Panel B displays the number and proportion of female members of boards of directors. From Panel A, it is observed that there has been a drastic increase in the number of outside directors from 2014 to 2015 and from 2015 to 2016 - the number of board members decreased between 2010 and 2012, but has increased since then; the increase from 2012 to 2013 and from 2013 to 2014 is approximately 400 and 650 respectively, but the increase from 2014 to 2015 and from 2015 to 2016 is around 1,200 and 1,450 respectively. It can be considered that the increase of outside directors is caused by the announcement of the implementation of the Corporate Governance Code in 2014, which requires listed firms to nominate at least two outside directors. Similarly, from Panel B, the same effect can also be seen; the increase in the number and proportion of female board members since 2014. Hence, it is expected that recently appointed female board members can be nominated as outside directors, and the third hypothesis can be stated as follows:

H3: Many of the recently appointed female board members were nominated as outside directors.

3. Data and Method

Extensive databases on Japanese firms were created for quantitative analyses. The data of corporate governance, and financial statements were collected on listed firms in Japan, i.e., listed on the 1st and 2nd Sections of the TSE, Mothers (Market of High Growth and Emerging Stocks), and JASDAQ (Japan Securities Dealers Association). Firm level databases were generated based on publicly available data sources, the Corporate Governance Information Service by the TSE, as well as the CD-ROM of Kaisha Shikiho by Toyo Keizai (2017). Both are available only in the Japanese language and are the most reliable data sources on Japanese listed firms. The sample firms exclude banks as their firm performance may be subject to different forces (Miyajima 2007).

Following the existing literature (Terjesen *et al.* 2016), a logit regression was used with the dependent variable of female participation on boards, a dummy variable if the company nominated at least one woman on boards. This paper additionally created another dependent variable, another dummy variable if the company appointed more than two women on board. The latter variable is created to see differences of characteristics of firms between firms with at least one woman on board and firms with more than two women on board.

As independent variables, characteristics of boards and firms were selected to test the hypotheses. Regarding board characteristics, the independent variables include the board size of the company and the proportion of independent directors on the board of the company, following the existing literature (Terjesen *et al.* 2016; Morikawa 2104). In addition, this paper controls for the different corporate governance systems in Japan: the nominating committee system, the audit committee system, and the auditors system. This variable has not been argued in the context of board gender diversity, and this paper added it to test the hypothesis regarding the governance system in the former section.

Regarding characteristics of firms, other variables have also been created following the existing literature. As a proxy for firm performance, ROA (return on assets) is used, which is calculated as a firm's net income to the book value of its assets. Also, a dummy variable is employed to see if a company provides any dividends. As a proxy for the size of the company, sales and the number of employees were utilised. Firm age is also controlled, which stands for the number of years since the foundation of the company. As a measure of ownership, percentage of ownership by foreign investors is used, which is an important attribute of firms to examine Japanese corporate governance (Morikawa 2014) as argued in the former section. Finally, as a proxy for stable ownership, the proportion of ownership by blockholders is employed; and the proportion of ownership by major shareholder is also controlled, which stands for the percentage of ownership by the largest shareholder of the company.

Table 2 presents the descriptive statistics of sample firms. The mean of female board members is 3%. The average number of board members is 11.6 per firm, and the average number of female board members per company is 0.38. 30% of the sample firms nominated at least one woman on board, but the proportion of firms with more than two female board members decreases to 6%. Further, among the sample firms, only 2% implemented the most independent system, the nominating committee system, and 20% implemented the second independent system, the audit committee system. 78% of the sample firms maintain their own traditional system, the auditors system.

4. Analysis

Table 3 shows the categorisation of firms with female board members, and the number and proportion of board members by sales of firms. Panel A displays the number and proportion of firms with female board members, both at least one woman on board and more than two women on board. There are only 133 firms with sales of more than JPY 1,000 billion out of a total 2,750 firms of all sales. It is observed that the proportion of female board members generally increases with the size of firms. The proportion of firms with female board members increases drastically to 70% with firms with sales of more than JPY 1,000 billion, from 35.4% of firms with sales between JPY 100 and 1,000 billion. If we consider that the average proportion of firms with at least one woman on the board is 30%, the proportion of the firms with sales of more than JPY 1,000 billion is remarkably high. Similar characteristics can be observed for the firms with more than two women on the board. This also increases drastically to 22.6% among firms with sales of more than JPY 1,000 billion, from 5.5% among firms with sales between JPY 100 and 1,000 billion. Further, Panel B shows the number and proportion of board members and female board members. It is shown that board size becomes larger as sales increase. Also, the average number of women on the board and the proportion of female board members generally increases with the sales of firms. In particular, the average number of women on the board increases more than two-fold, from 0.43 among firms with sales of JPY 100 to 1,000 billion to 0.95 among firms with sales more than JPY 1,000 billion. In particular, it can also be noted that the largest 133 of the listed firms appoint more female members of the board of directors than smaller firms.

Table 4 presents the attributes of recently nominated female directors and their roles in Japan between 2014 and 2016. Panel A shows the number of female board members by outside and inside directors. It is shown that 65% of the total female board members are nominated as director, followed by auditor, managing director, and president. Further, among directors, it is observed that 86% of the recently nominated female directors are nominated as outside directors, i.e. directors hired from outside the firm. From Panel B, it is shown that 2% of the recently nominated female board members are foreigners, which indicates a limited foreign diversity on boards. Looking at the proportion of female directors who are board members of more than two firms, 10% of the recently nominated female board members are appointed to more than two firms. This indicates that the pool of Japanese female board members is not enough, and that 'star players' are frequently asked to become board members by several companies. These findings from Table 4 support the third hypothesis: *H3: Many of the recently appointed female board members were nominated as outside directors.*

Table 5 displays the empirical results showing the determinants of female participation on boards. A logit regression is conducted with the dependent variables as at least one woman, and more than two women on board, with independent variables of firm and board characteristics. Compared to Model 2, Model 1 additionally controls for a dummy variable of corporate governance systems; the nominating committee system and the audit committee system.

Regarding the impact of the size of firms on board gender diversity, it can be seen that sales has a positive impact on female participation on boards. The impact of sales on there being at least one woman on the board is statistically significant, even though the impact of sales on more than two women being on the board is not statistically significant. It indicates that firms with larger sales tend to appoint at least one woman as a board member, but that they do not necessarily appoint more than two women to the board. By reviewing the findings displayed in Table 3, it can be considered that the appointment of more than two female board members does not necessarily correlate with the level of sales, especially among the firms with sales of less than JPY 1,000 billion. Further, the number of employees also has a positive impact on at least one woman being appointed to the board, but it has a negative impact on there being more than two women on the board, and that both of them are not statistically significant. This implies that the larger size of firms, by the number of employees, does not necessarily encourage the appointment of more female board members. This result supports the findings of the literature (Morikawa 2014) that the size of firms by the number of employees does not have a statistically significant relationship with gender diversity on boards.

On the other hand, firm age has a negative impact on female participation on boards throughout the models, this being statistically significant. This result also supports the findings from the existing literature (Morikawa 2014), and confirms that older firms tend not to appoint female board members. This implies that older firms tend to maintain more traditional corporate governance systems that prevent them from appointing female board members than later founded firms. About firm performance, ROA has a positive impact throughout the models, and the level of dividends also has a positive impact, except for one model. Even though they are not statistically significant, the positive impact implies that firms with good financial performance tend to appoint female board members; this is consistent with the findings by the existing literature (Terjesen *et al.* 2016).

With regards to ownership, foreign ownership shows a positive effect throughout the models, and this is statistically significant except for one model, which implies that firms with higher foreign ownership tend to appoint female board members. The result is consistent with the first hypothesis *H1: Firms with higher foreign ownership tend to appoint female board members.* Nonetheless, this result does not support the argument that foreign ownership does not have a statistically significant relationship with board gender diversity by Morikawa (2014), whose data is up to 2012. This implies that recently increasing female board members have been nominated under the stronger influence of foreign ownership than before. On stable ownership, the ownership by major shareholder has a positive impact on female participation on boards, but ownership by blockholders has a negative impact, even though they are not statistically significant. As the ownership by parent companies are the ownership by blockholders, this result supports the argument in the existing literature (Morikawa 2014) that firms with parent companies tend not to appoint female board members.

Regarding board characteristics, board size has a positive impact on gender diversity on boards, and this is statistically significant throughout the models. It implies that the larger a firm's board, the more likely the board is to have female members. This supports the argument of the existing literature (Terjesen *et al.* 2016; Morikawa 2014). Further, the proportion of board independence has a positive impact on female participation on boards, all of which are statistically significant. This result also supports the existing literature.

Regarding the corporate governance system, it is observed that the nominating committee system, the most independent system, has a positive impact on there being at least one woman on the board. Nonetheless, it has a negative impact on there being more than two women on the board. Further, the audit committee system, which is the second independent system above the traditional board system, shows a negative impact on the participation of women on boards of directors; for both there being at least one woman on board and more than two women on board. The effects of the Audit Committee system are statistically significant. These findings suggest that firms with a more independent board system do not necessarily nominate female directors. Hence, they are not consistent with the second hypothesis:

H2: Firms with a more independent corporate governance system tend to nominate female board members.

5. Discussion and Conclusion

This paper examines gender diversity on boards of directors in Japan under conditions of incremental institutional change. Japan has been under financialization, alongside the increasing importance of foreign investors and regulatory reform converging to the Anglo-American style of corporate governance practice. The impact of such institutional change is analysed on Japanese corporate governance practices of female membership of boards of directors by using the data of listed firms in 2016. The main findings can be stated as follows.

First, it is found that institutional change provides firms with an incentive to relieve institutional pressure. Japanese firms have been undergoing institutional change with increasing foreign investment as well as regulatory reform and new policies, and pressured to make changes in terms of both board independence and board gender diversity. The result shows that Japanese firms relieve both pressures by appointing female directors as outside directors. This phenomenon especially started to be observed just after the announcement of the implementation of the Corporate Governance Code, which requires listed firms to appoint outside directors. Hence, it can be considered that regulatory reform provided an impetus to overcome institutional pressure, and that the impact of the reform is not only in an intended manner – increasing female membership of boards of directors is a consequence of increasing numbers of outside directors in Japan.

Second, this paper shows that impact of institutional change does not necessarily lead to the further transforming of corporate governance practices. The result suggests that firms which implemented a more independent corporate governance system do not particularly nominate female board members, as the more independent corporate governance system subsidises gender diversity on boards by providing enough signal that the firm has implemented more advanced corporate governance practices than other, more traditional firms. As such, regulatory reform offering more options of corporate governance systems has not always contributed to enhancing board gender diversity.

These findings imply that institutional change is an opportunity for firms to transform their corporate governance practices whilst they try to retain path dependence. Many Japanese firms persist in maintaining their traditional corporate governance practices in institutional complementarity. Even though firms change their governance practices, they try to make a minimum change only to release institutional pressure. As a result, even though the institutional change occurs under the force of convergence to international standards, greater diversity among firms can be observed on board characteristics depending upon the responses of each firm to the institutional change, given the various means and options of governance systems provided by regulatory reform.

The process of enhancing board gender diversity is different across societies – some countries enforce gender quotas, and others promote by their Corporate Governance Codes, whilst Japan currently enhances board gender diversity only at policy level without any regulations or codes that enforce the nomination. By considering the institutional complementarity and path dependence of Japanese firms and their traditional labour market with its high withdrawal rate of the female labour force, nominating female board members is not consistent with the traditional Japanese corporate governance practices, with a limited pool of directors who could serve as female board members. As such, the nomination of female board members in Japan is still limited with firms' wariness of their playing a proper role in the boardroom of the kind expected by foreign investors.

As a policy implication, the enforcement of gender quotas like those in European countries seems too early in Japan. As shown in this paper, Japanese firms are flexibly nominating females to boards of directors in line with the requirement of appointing outside directors; hence, it is expected that more female members on boards of directors will be nominated as outside directors in the near future. Nonetheless, the problem of a low proportion of female board members is not an isolated issue and it needs to be solved, along with the improvement of social systems and work environments for women, which would likely lead to an increase in the pool of women who could serve as board members by decreasing the rate of women's withdrawal from the labour market. Future research can broaden the scope of study with qualitative research methods, by interviewing board members on the role of female members of boards of directors, potentially providing useful policy recommendations.

The transformation of corporate governance practices is not occurring in a homogeneous manner, both between and within countries. In particular, organisational diversity within a national system should not be neglected, as only with due consideration given to this can a proper understanding of the impact of institutional change on firms across the world be achieved. This paper supports the importance of the empirical analysis of corporate governance systems from institutional perspectives, which will ultimately lead to further contributions to corporate governance and comparative capitalism literature.

Table 1. Evolution of female board members and independence of boards

Year	2010	2011	2012	2013	2014	2015	2016
Panel A: Numbers of outside directors (on the 1st Section of Tokyo Stock Exchange)							
Total # of board members	14,982	14,791	14,636	15,036	15,689	16,874	18,304
# of firms with outside directors	1,581	1,676	1,784	2,037	2,462	3,588	4,748
Panel B: Number and proportion of female board of directors (all the listed firms)							
# of female board members	554	585	630	691	816	1,142	1,388
% of female board members	1.3%	1.4%	1.6%	1.8%	2.1%	2.8%	3.4%

Notes: Due to data availability, the sample firms of Panel A are the listed firms on all the stock exchange in Japan, i.e., the 1st and 2nd Sections of the TSE, Mothers, and JASDAQ, whilst those of Panel B is only those on the 1st Section of the TSE.

Table 2. Summary statistics

Variable	Obs.	Mean	Std. Dev.	Min.	Max.
Sales (million JPY)	2,750	243,362	972,506	37	28,403,118
Firm age (years)	2,750	54.4	26.6	2.0	135.0
# employees	2,750	5,167	18,599	4	348,877
ROA	2,750	3.2	7.0	-91.01	45.3
% foreign ownership	2,750	0.12	0.13	0.00	0.92
Dividends (dummy)	2,750	0.88	0.32	0.00	1.00
% ownership by blockholders	2,746	0.52	0.16	0.10	1.00
% major shareholder	2,750	0.20	0.15	0.02	0.95
Board size	2,750	11.6	3.7	5.0	46.0
# female board members	2,750	0.38	0.65	0.00	5.00
Dummy_1+ woman on board	2,750	0.30	0.46	0.00	1.00
Dummy_2+women on board	2,750	0.06	0.24	0.00	1.00
% female board members	2,750	0.03	0.06	0.00	0.43
# outside directors	2,750	2.16	1.11	0.00	9.00
% independents on board	2,750	0.19	0.10	0.00	0.67
Dummy_nominating committee	2,750	0.02	0.13	0.00	1.00
Dummy_audit committee	2,750	0.20	0.40	0.00	1.00
Dummy_auditors	2,750	0.78	0.41	0.00	1.00

Table 3. Female board members by sales

Total sales (JPY)	<10 billion	10-100 billion	100-1,000 billion	1,000 billion<	*Total*
Panel A: Number and proportion of firms with female board members					
Total # firms	524	1,401	692	133	*2,750*
# firms: at least 1 woman on board	**136**	**349**	**245**	**94**	*824*
% firms: at least 1 woman on board	26.0%	24.9%	35.4%	70.7%	*30.0%*
# firms : more than 2 women on board	**28**	**80**	**38**	**30**	*176*
% firms: more than 2 women on board	5.3%	5.7%	5.5%	22.6%	*6.4%*
Panel B: Number and proportion of female board members					
Average # of board members	8.70	11.12	13.54	17.28	*11.57*
Average # of women on board	0.32	0.32	0.43	0.95	*0.38*
% female board members	3.7%	2.8%	3.2%	5.5%	*3.3%*

Table 4. Attributes of recently nominated female directors (2014 – 2016)

Title of Board of Director	Director		Auditor		Managing Director		President		**Total**	
Panel A: Recently nominated female board members										
Outside directors	373	86%	207	92%	0	0%	0	0%	580	86%
Inside directors	63	14%	17	8%	13	100%	2	100%	95	14%
Total	***436***	***65%***	***224***	***25%***	***13***	***2%***	***2***	***0%***	***675***	***100%***
Panel B: Attributes of female directors										
Directors for 2+ firms	55	13%	15	7%	0	0%	0	0%	70	10%
Foreign directors	10	2%	0	0%	2	15%	0	0%	12	2%

Notes: The table shows the number and proportion of female board directors in Japan appointed between August 2014 – August 2016. Translation from Japanese as follows: Director = Torishimari Yaku; Auditor = Kansa Yaku. Torishimari Kansa, Joukin Kansa; Managing Director = Jomu, Shikko Yaku; President = Shacho.

Table 5. Determinants of female participation on boards

Explanatory variables	Model (dependent variable)			
	Logit (1+ woman on board : dummy)		Logit (2+ women on board : dummy)	
	Model 1	Model 2	Model 1	Model 2
Sales (log)	0.221*	0.227*	0.031	0.078
	(0.097)	(0.085)	(0.901)	(0.748)
Employees (log)	0.052	0.052	-0.087	-0.107
	(0.701)	(0.703)	(0.726)	(0.668)
Firm age (log)	-0.953***	-0.997***	-0.851***	-0.912***
	(0.000)	(0.000)	(0.000)	(0.000)
ROA (log)	2.105	1.955	5.323	5.074
	(0.180)	(0.212)	(0.150)	(0.173)
Dividends (dummy)	0.042	-0.019	0.395	0.332
	(0.800)	(0.906)	(0.256)	(0.337)
% ownership by foreign investors	0.683*	0.847**	1.126	1.219*
	(0.096)	(0.035)	(0.102)	(0.072)
% ownership by major shareholder	0.005	0.005	0.011	0.010
	(0.257)	(0.246)	(0.186)	(0.228)
% ownership by block holders	-0.488	-0.504	-0.945	-0.918
	(0.287)	(0.271)	(0.280)	(0.295)
Board size	0.073***	0.085***	0.120***	0.117***
	(0.000)	(0.000)	(0.000)	(0.000)
% independents on board	2.699***	1.545***	3.415***	1.894**
	(0.000)	(0.001)	(0.001)	(0.019)
Nominating committee system (dummy)	0.475		-0.360	
	(0.156)		(0.449)	
Audit committee system (dummy)	-0.609***		-0.694**	
	(0.000)		(0.012)	
constant	-1.771***	-1.698***	-3.552***	-3.341***
	(0.000)	(0.000)	(0.000)	(0.000)
Observations	2,746	2,746	2,746	2,746
Pseudo R^2	0.099	0.088	0.076	0.070

pval in parentheses
*** p<0.01, ** p<0.05, * p<0.1

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