The Role of Board of Directors in Japan:

The Empirical investigations of Competition and Governance

学位請求論文要旨

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1. Motivation

The purpose of this dissertation is to explore the role of board of directors in Japanes company during the period 1991-2004. Three empirical investigations on banker director, bureaucrat director, and the president are presented in chapter 2, chapter 3, and chapter4, respectively. During the observed period, Japanese companies experienced economic bubble burst in 1991, and suffered with banking crisis in 1997. They have not only faced the harsh operating conditions in domestic market but also encountered the increased competition from international rivals. Those unexpected events changed Japanese board composition, and the function of directors.

The results in this dissertation show that the banker director plays the monitoring role in firm's information disclosures and bureaucrat director plays a rent-seeking role as well as brings their industrial expertise in exploring new business segments to companies. In addition, the president of a firm operating in competitive industry is more likely to be dismissed when he does not achieve firm's goals.

2. The abstract of each chapter is as follows:

Chapter 1 A Survey of Corporate Governance and Relevance to Japan

This survey chapter reviews previous theoretical and empirical studies relevant to corporate governance. Most related research has been conducted in the U.S. The

America model of corporate governance featured as Arm's length has been held up as a model to other business systems around the word. Yet, when Japanese economy surpassed U.S. during the 1980s, there is a constant talk of replacing the Anglo-Saxon corporate governance system with those patterned after Japan. Japanese-style corporate governance raised the attention in the world, and the rich variety of subject matter studied in the growing literature on Japanese firms. According to relevant literature, Japanese-style corporate governance features as main bank system, cross-shareholding, controlling management and internal hierarchy. Five corporate governance mechanisms, managerial incentive, board of diretor, large shareholder, main bank and market competition are introduced in this chapter.

Chapter 2 Voluntary Information Disclosure and Corporate Governance: The Empirical Evidence on Earnings Forecasts

Chapter 2 investigates the determinants of companies' voluntary information disclosure. Employing a large and unique dataset on the companies' own earnings forecasts and their frequencies, I conducted an empirical analysis of the effects of a firm's ownership, board, and capital structures on information disclosure. The result is consistent with the hypothesis that the custom of cross-holding among companies strengthens entrenchment by managers. The findings show that bank directors force managers to disclose information more frequently. In addition, results show the borrowing ratio is positively associated with information frequency, suggesting that the manager is likely to reveal more when his or her firm borrows money from financial institutions. However, additional borrowings beyond the minimum level of effective borrowings decrease the management's disclosing incentive.

Chapter 3 The Winner of the Politically-Connected Firm or the Cost-Efficient Firm in an Industry Competition

Chapter3 investigates the impact of company's political connection on its business structure and performance. An empirical analysis of Japanese construction industry during the period of 1991-2004 reveals that a company with strong political connection enjoys the privilege of receiving more public constructions than a company without this connection. The empirical resutls also suggest that politically connected companies are more risk averse and therfore diversify their activities in many industries, while non-connected firms tend to concentrate on their core business only. However, such political connection turns out to be harmful to firm performance during the so-called Japanese called lost decade, which implies that the burden of keeping strong political connections through receiving bureaucrat directors and paying a lot of entertainment expenses is quite costly.

Chapter 4 President Turnover and Product Market Competition: Empirical Evidence from Japanese Manufacturing

The results reported in Chapter 4, based on an analysis of 1419 Japanese manufacturing companies over the period 1991 to 2001 provide supports for a threat-of-liquadition effect, that competition of output market is a substitued mechanism of corporate governance for forced removel of slack manager, and thereby curb management entrenchment. Specifically, competition, as measured by several indices including lower levels of Herfandahl Indices, higher levels of import pernetrations and lower level of export to import ratio, are positively and significantly associated with a higher probability of disciplinary president turnover. Meanwhile, the presence of dominant firm on market share in the industry enhances the probability of disciplinary president turnover. Yet, if the competition is too intensive, which is measured as the existence of dominant firm in the most competitive market the probability of disciplinary turnover decreases. Results in this study imply that market competition archieves efficient corporate governance without governance intervention.