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What types of companies have female directors? Evidence from Japan

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ABSTRACT

Japan is known for its low level of female engagement in senior positions. This study analyzes the determinants of the presence and number of female directors among Japanese companies. We find that, first, listed and long-established companies, subsidiaries of parent companies, and unionized companies tend not to have female directors. Second, owner-managed companies are likely to have female directors and CEOs. Third, we find no evidence of tokenism among Japanese companies, whereby female-led companies do not appoint additional females as directors. To increase the number of female executives and directors substantially, creation of new businesses is essential.

1. Introduction

Given the rapidly declining trend in working-age population, the increase in female labor participation is regarded as one of the pillars of growth-promotion policy. The labor force of Japan is predicted to decrease by 0.8% on an annual basis until 2030, which would contribute negatively to the annual real GDP growth rate by 0.5%.[1] To mitigate this negative effect, the Japan Revitalization Strategy in 2013 set a 73% target for the labor participation rate of females aged between 25 and 44 years by 2020. Because this rate was 68% in 2012, the target of 73% equals a 5-percentage point increase.[2] Meanwhile, Japan is known for its low level of female engagement in senior positions (e.g., OECD, 2012).[3] To address this problem, the strategy encourages companies to employ more females as directors and managers. For example, the strategy states that listed companies should each have at least one female director on its board.

According to the 2010 Population Census, there are approximately 765,000 female directors in Japan (23.2% of all company directors). Although the figure is far lower than the number of male directors, the absolute number is not negligible. To establish effective policy measures, it is essential for policymakers to have detailed evidence of the types of companies that employ female directors. However, the subject has not been well researched. Although it is not difficult to identify the female directors in public (listed) companies from the financial statements, the majority of the female directors are employed outside of the listed companies. Official government statistics covering small- and medium-sized companies do not provide sufficient information about the attributes of company directors or detailed company characteristics. For example, the Basic Survey of Japanese Business Structure and Activities by the Ministry of Economy, Trade and Industry (METI) and the Financial Statements Statistics of

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[1] Japan's labor force prediction is taken from the Employment Policy Research Group Report (Ministry of Health, Labour and Welfare, 2014). In the report, the annual decrease of 0.8% is based on the assumptions of low economic growth and no improvement in the labor force participation rates of females and elderly people. Contribution to the annual growth rate is the author's calculation by assuming that the cost share of labor is around two thirds of the sum of labor and capital inputs.

[2] The labor participation rate increased by 6-percentage points from 2002 to 2012. The contribution of the stated increase in the female labor force to GDP growth by 2020 is similar in magnitude to that of the past 10 years.

[3] According to the Global Gender Gap Index (World Economic Forum, 2013), Japan is ranked 105th among 136 countries.

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Corporations by the Ministry of Finance do not provide information about demographic characteristics, such as the gender and age of managers and directors. The Economic Census for Business Activity and its predecessor, the Establishment and Enterprise Census by the Ministry of Internal Affairs and Communications (MIAC), collect information about the number of male/female directors. As a result, the basic characteristics of establishments and companies, such as the industry and number of female directors, can be identified, but the information for the company characteristics is very limited in these censuses. For example, they do not provide information about performance measures (e.g., profitability and productivity) and governance structure (e.g., composition of shareholders).

Against this background, this study, using an original company survey linked to the government statistics, presents empirical findings about the relationship between various company characteristics and the gender diversity of board structures. The purpose of this study is to identify what types of company have female directors in Japan. Specifically, we use the Survey of Corporate Management and Economic Policy conducted by the Research Institute of Economy, Trade and Industry (RIETI) and the Basic Survey of Japanese Business Structure and Activities for the fiscal year 2011. The gender of CEOs and number of directors by gender and nationality (Japanese/non-Japanese) are available from the Survey of Corporate Management and Economic Policy. A variety of company characteristics, such as industry, number of employees, ratio of foreign shareholdings, sales, and profit, can be obtained from the Basic Survey of Japanese Business Structure and Activities. There are approximately 3200 sample companies in this matched dataset. The details of the data are explained in Section 3.

The major findings of this study are as follows. Listed and long-established companies, subsidiaries of parent companies, and unionized companies are less likely to have female directors. On the other hand, owner-managed companies tend to have female directors and chief executive officers (CEOs). Company age is negatively associated with the presence of female directors; females have a higher chance of becoming directors in younger companies. While some past studies in the United States (US) and European countries find evidence of "tokenism," whereby female-led companies do not appoint additional females as directors, we do not find such evidence among Japanese companies.

The rest of this paper is structured as follows. Section 2 briefly reviews the literature. Section 3 explains the method of analysis and the data used. Section 4 reports and interprets the results, and Section 5 concludes with policy implications.

2. Literature review

Recently, the gender of CEOs and board diversity have attracted attention from researchers, and a relatively large number of studies on the subject have been conducted in the field of labor economics and financial economics.[4] Studies from the viewpoint of female labor mainly focus on the issue of the gender gap in compensation (e.g., Bell, 2005; Elkinawy and Stater, 2011; Bugeja et al., 2012; Flabbi et al., 2014; Pucheta-Martinez and Bel-Oms, 2015) and gender discrimination in promotion (Bertrand and Hallock, 2001; Elkinawy and Stater, 2011; Matsa and Miller, 2011; Gayle et al., 2012; Smith et al., 2013; Conyon, 2014).[5] On the other hand, the major interests of the studies in the field of finance and corporate governance are the effect of female directors on company performance (e.g., Carter et al., 2003; Wolfers, 2006; Adams and Ferreira, 2009; Gul et al., 2011; Ahern and Dittmar, 2012; Dezsö and Ross, 2012; Matsa and Miller, 2013; Pathan and Faff, 2013; Gregory-Smith et al., 2014) and the different management styles of female leaders (e.g., Gul et al., 2011; Huang and Kisgen, 2013; Matsa and Miller, 2014).

In these studies, the characteristics of companies that appoint female CEOs/directors are not necessarily the main focus of the analyses, but a few of the studies present descriptive statistics on the relationships between the company characteristics (industry, size, age, etc.) and the existence of female CEOs or the number of female directors. In terms of industry, past studies in the US indicate that female CEOs and directors are likely to be in companies operating in the service sector (especially health and social services) and retail industry (Bertrand and Hallock, 2001; Wolfers, 2006; Gul et al., 2011; Bugeja et al., 2012; Huang and Kisgen, 2013). Studies in the US generally find that the company size is positively associated with the number of female directors (Carter et al., 2003; Farrell and Hersch, 2005; Adams and Ferreira, 2009; Gul et al., 2011), with the exception of Bertrand and Hallock (2001), which indicates that the size of companies with female directors is relatively small. Wolfers (2006) suggests that the size of companies with female CEOs is somewhat smaller than those with male CEOs. Studies reporting the relationship between company age and female directors are scarce, but Gul et al. (2011) indicate that older companies are more likely to have female directors than younger companies in the sample of US listed companies.

While the main interest of the abovementioned studies is not the determinants of female directors, Farrell and Hersch (2005) and Parrotta and Smith (2013) are examples of studies that focus on the determinants for the appointment of female directors. Farrell and Hersch (2005) analyze the determinants and the effects of the appointment of females as new board members in the US. They indicate that institutional ownership and profitability (return on assets, ROA) are positively related to the likelihood of adding a female to the corporate board and that the percentage of females already on the board is negatively related to the likelihood of adding another female. Parrotta and Smith (2013), using a panel of Danish companies, analyze the determinants of the presence of females on boards of directors. They find that companies with a female director on the board have a significantly lower probability of having another female on the board of directors. The authors interpret this result as evidence of the tokenism hypothesis.

In Japan, empirical studies on the relationship between the share of females in the workforce and company performance have been increasing recently (e.g., Kodama et al., 2005; Kawaguchi, 2007), but analysis on female CEOs and directors has been scarce. A notable exception is Siegel and Kodama (2011). They construct a large dataset by linking three government statistics—the Basic Survey of Japanese Business Structure and Activities (METI), the Establishment and Enterprise Census (MIAC), and the Basic Survey on Wage Structure (Ministry of Health, Labour and Welfare, MHLW)—and analyze the effects of female representation at various levels of the organization on the profitability of companies. They report that the presence and number of female directors have positive effects on profitability (ROA) within the manufacturing sector. However, such effects cannot be observed in the service sector, in which female participation in the workforce is relatively well advanced. According to the descriptive statistics of their study, the ratio of female directors is higher in the service sector compared to the manufacturing sector.

To summarize, although an increasing number of studies has presented several interesting findings about the company characteristics related to the appointment of female directors and CEOs, the stylized facts have not been established, while studies on Japanese companies have been scarce. As mentioned in Section 1,

[4] Terjesen et al. (2009) present a comprehensive survey of this topic covering studies in sociology.

[5] It should be noted that in the majority of Japanese companies, boards of directors and executives are not separated, whereas these are often separated in companies in the US and certain European countries.