World Academy of Science, Engineering and Technology
International Journal of Economics and Management Engineering
Vol:14, No:12, 2020

The Effect of the 2015 Revision to the Corporate Governance Code on Japanese Listed Firms

Authors : Tomotaka Yanagida

Abstract : The Corporate Governance Code, revised in 2015, requires firms listed within the first and second sections of Japan’s Tokyo stock exchange to select two or more independent outside directors (the Corporate Governance Code4-8). Therefore, Japanese listed firms must do this or explain the reason why they are not able to do so. This study investigates how the Corporate Governance Code affects Japanese listed firms. We find that the Corporate Governance Code increases the ratio of outside directors by nearly 8.8% for a sample of Japanese firms comprising nearly 4,200 firm-year observations from 2014 to 2015 using a difference-in-differences approach. This implies that they felt it would have been difficult to explain why it was not appropriate to have an outside director at the annual shareholders' meeting. Moreover, this suggests that they appoint outside directors as defined by the Corporate Governance Code, but maintain board size. This situation shows that compliance in Japan may simply be 'window dressing,' that is, more form than substance.

Keywords : board structure, comply or explain, corporate governance code, soft law
Conference Title : ICBEIT 2020 : International Conference on Business, Economics and Information Technology
Conference Location : Cairo, Egypt
Conference Dates : December 14-15, 2020