Determinants and Consequences of Introduction of Outside Directors into All-insider Boards: Evidence from Japan☆

Takuji Saito[a] *

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[a] *Faculty of Economics, Kyoto Sangyo University, Kamigamo, Kita-ku, Kyoto 603-8555, Japan*

Abstract

This paper shows that only a few (even one) outside directors improve the effectiveness of boards and firm performance by analyzing the determinants and consequences of the introduction of outside directors in Japan. Traditionally, most of Japanese public firms did not have outside directors on their boards, but recently some firms have for the first time appointed outside directors to their all-insider boards. We find that top managers and investors view that the introduction of outside directors could significantly improve the advising and monitoring role of boards, and the introductions actually increase the operating performance and the relation between poor performance and forced president turnovers. Our results suggest that large public firms should be required to have at least one outside director on their boards.

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* Faculty of Economics, Kyoto Sangyo University, Motoyama, Kamigamo, Kita-ku, Kyoto 603-8555, Japan
E-Mail: tsaito@cc.kyoto-su.ac.jp
Tel/Fax: +81-75-705-1761