Title: The Role of Outside Directors in Improving Japanese Corporate Governance

Author(s): 井上 均

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Abstract

Why do Japanese listed firms need outside directors? In what situations do outside directors contribute to a firm? What role do outside directors contribute to a firm? This dissertation shed light on these questions. Consequently I make three contributions to the literature and corporate world as well.

First, through the lens of multiple theories, I find that the corporate governance of Japanese listed firms does not work well and figure out the reason why Japanese listed firms need independent outside directors.

Second, from my qualitative analysis through multiple case study, I find that independent outside directors can move a firm in a better direction, especially when a firm is at a crossroads and test it in large samples. The result supports that, in particular, independent outside directors contribute to firm performance, especially when firm performance is continuously poor, which means the firm stands at a crossroads.

Third, I also find through analyzing the case study and applying a concept of cognitive science that independent outside directors have another new important role which is creation of constructive interaction with insiders in discussions. This constructive interaction causes the insiders to reflect on their biases toward an issue and leads the board, especially the insiders, to different levels of understanding and solving
the issue. Consequently, independent outside director can move a firm in a better direction by promoting the constructive interaction in the board. This finding most contributes to the field of corporate governance and practice because the deeper understanding of outside director’s function derived from this finding provides important implication for corporate boards, officers and staffs, such as who firms should choose as the outside directors and how firms take advantage of their abilities to contribute the firms.