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Changes in the Corporate Governance System and Presidential Turnover

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INCAS
Understanding institutional change in Asia: a comparative perspective with Europe
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ABOUT THE INCAS PROJECT

INCAS is a Marie Skłodowska-Curie Actions R.I.S.E funded project under the European Commission's H2020 Programme.

The project INCAS aims at creating a top-level research and advanced training network on institutional change in Asia, in comparative perspective with Europe.
The coordinator, Ecole des Hautes Etudes en Sciences Sociales (France), promotes this network together with Oxford University (UK), Freie Universität Berlin (Germany), and in collaboration with Waseda University (Japan). The aim of the proposed mobility scheme is to give birth to a European consortium and network of faculties and advanced graduate students specialized in the comparative analysis of institutional change in Asia and Europe. The partners have chosen Japan as a reference point because of its comparability with Europe as shown by previous studies, its historical influence on development and further institutional changes in Asia, and the expertise accumulated within our research team.

Analyzing current economic dynamics in Japan and later expanding this analysis to other Asian countries promises to generate insights that might be help to better understand challenges for Europe and to prepare relevant policy proposals. Our purpose is to compare the results obtained in the case of Japan and few other Asian countries (South Korea, Taiwan, China, and possibly Thailand, after having checked the data availability), not only to previous results on Europe but also to original results we will get on European countries (primarily France – which will be our reference country in Europe – and then the UK, Germany, and Italy) in mobilizing new historical data and applying our theoretical framework.

Changes in the Corporate Governance System and Presidential Turnover*

Abstract

The article aims to shed light on how changes in the corporate governance system for Japanese firms since the 1990s have influenced presidential turnover. We analyzed the determinants of presidential turnover between 1990 and 2013 for a random sample of 500 firms listed on the First Section of the Tokyo Stock Exchange. Though our analysis found that presidential turnover sensitivity to corporate performance has not changed, we did show that ROE and the stock return are displacing ROA as corporate performance indices to which presidential turnover is most sensitive. Furthermore, while presidential turnover sensitivity to ROA is highest in firms that are believed to be most under the influence of main banks, firms with high foreign institutional investor shareholding ratios are more sensitive to ROE. These results are consistent with the curtailment in the scope of main bank activity and the increase in foreign institutional investors that have occurred since the latter half of the 1990s. The influence of outside directors, who had begun to increase from the mid-2000s, varied depending on how many sat on each board. The sensitivity of presidential turnover to performance tends to be lower in firms that have one or two outside directors and higher in firms with three or more outside directors.

JEL Code: *G34; G38; K22*
Keywords: *Corporate governance; Presidential turnover; Main bank; Institutional investors; Independent outside directors*

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1. Introduction

The relation between presidential turnover and performance is one of the most important indices for determining whether corporate governance is functioning effectively (Jensen and Ruback 1983, Shleifer and Vishney 1997). Until now, numerous studies in Japan and abroad have examined the relationship between presidential turnover and corporate performance. In particular, since presidential turnover is sensitive to a greater or lesser degree to performance in the advanced countries, many studies have been directed toward shedding light on time-series change in presidential turnover sensitivity to performance, and on the relationship between the mechanisms and channels that bring about turnover, and the evolution and features of the corporate governance system. For example, Weisbach (1988) is a pioneering study that analyzes the relationship between board composition and managerial turnover in the U.S. Denis, Denis and Sarin (1997) analyzes the relationship between shareholder composition and managerial turnover. Parrino, Sias and Starks (2003) shows that with regard to top executive turnover, the threat of exit by institutional investors is an important mechanism in addition to managerial shakeup through hostile takeover and direct involvement by blockholders. In recent years, researchers have trained their analytical focus on how the relationship between presidential turnover and performance has changed in relation to the evolution of the U.S. corporate governance system. Huson, Parrino, and Starks (2001) have reported that the frequency of presidential turnover increased in the 1980s with a more active market for managerial rights, as internal governance has been implemented through the appointment of independent directors. Kaplan and Minton (2012) found that the frequency of presidential turnover increased in the 1980s with a more active market for managerial rights, and not only presidential turnover but also sensitivity to performance also increased in the 1990s and 2000s with the strengthening of governance due to the Sarbanes-Oxley Act.

On the other hand, research pertaining to Japan has until now focused on the role of main banks in presidential turnover. Kaplan (1994) analyzed the relationship between presidential turnover and performance in Japan, and the U.S., in the mid-1980s, and stressed that the Japanese main-bank system serves an equivalent function to the market for corporate control in the U.S. Furthermore, Kang and Shivdasani (1995) examined the relationship between presidential turnover and performance for the period from 1985 to 1990, Abe (1997) examined the same topic for the period from 1974 to 1990, and Miyajima (1998) analyzed presidential turnover during five major recessions occurring between the 1950s and the 1990s. All of these analyses point out that in Japan, as is the case in the U.S., the probability of presidential turnover increases as performance deteriorates, and that the sensitivity of presidential turnover to performance rises the stronger the ties to the main bank.

However, the corporate governance environment for Japanese firms has undergone substantial change since the collapse of the bubble. On the one hand, the ownership structure has experienced dramatic upheaval due to the dissolution of cross-shareholdings, the rapid rise in the shareholding ratio by institutional investors, etc., while on the other hand, the main-bank system, which had been a distinguishing feature of the corporate governance of Japanese firms up to now, has waned. Furthermore, while there had traditionally been no organizational separation between the managerial and monitoring roles, and boards of directors of Japanese firms were largely, or exclusively, comprised of personnel promoted from within firms, there has been a gradual organizational separation of management and monitoring, a reduction in the size of boards, and an increase in the number of independent directors appointed over the past 20 years. So how have these changes in the corporate governance system influenced the relationship between corporate performance and presidential turnover? The main objective of this study is to elicit an answer to this question.

The concrete focus of our analysis will be directed toward the following issues.

- Has the traditional main-bank system been relieved its management-disciplining function, or has the scope of this function merely been curtailed?

- Have institutional investors, and foreign institutional investors in particular, who have increased rapidly since the end of the 1990s, supplanted main banks in disciplining the management of Japanese firms?

- If institutional investors are increasing their influence over presidential turnover, what is the mechanism? Does the existence of blockholders encourage presidential turnover? Is the threat of exit (voting with feet) a major mechanism?

- Does the increase in independent directors have a significant influence on the sensitivity of presidential turnover to performance?

In this study, we will compile panel data for 500 firms randomly selected from the First Section of the Tokyo Stock Exchange for the period from 1990 to 2013 to shed light on the points enumerated above.

This study is organized as follows. Section 2 provides an overview of former research on presidential turnover, corporate performance, and governance systems. Section 3 stylized facts on the salient features of presidential turnover in recent years. Section 4 summarizes the results of the relationship between presidential turnover and performance. Sections 5 – 7 present analyses of the influence of the main-bank system, institutional investors, and independent directors on presidential turnover. The final section presents our conclusions and discusses the implications of our analytical results.

2. Previous Research on Presidential Turnover

2.1 Research on the U.S.

Jensen and Ruback (1983) pointed out that the relationship between presidential turnover and performance is one of the most important indices for determining whether or not corporate governance is functioning effectively, and since the mid-1980s research in the U.S. has made further advances on this issue. Pioneering studies in this research area include Coughlan and Schmidt (1985) and Warner, Watts, and Wruck (1988), which shows that presidential turnover is sensitive to performance. Subsequent research has aimed to shed light on the mechanism for conveying the degree of sensitivity of presidential turnover to performance. Weisbach (1988), for example, analyzes the relationship between board composition and presidential turnover. Furthermore, Denis, Denis and Sarin (1997) analyzes ownership structure and presidential turnover, showing that the sensitivity of presidential turnover to performance was lower in firms with higher managerial ownership ratios. Parrino, Sias, and Starks (2003) shows that aside from the market for hostile takeovers and direct involvement by blockholders, the threat of exit by institutional investors serves as an important mechanism for presidential turnover.

Moreover, research in recent years has attempted to put the focus on how the relationship between presidential turnover and performance has changed in relation to the evolution of the U.S. governance system. Huson, Parrino and Starks (2001) analyzed CEO turnover from 1971 to 1994. While internal governance improved in the U.S. during this period through increases in the number of outside directors, strengthening of the role of outside directors, etc., there were also advances in external governance such as the development of a more active market for corporate control. The authors reported that although there was an increase in the frequency of forced presidential turnover, and the recruitment of presidents from outside of firms, the degree of sensitivity to performance had not changed.

Following up on Huson, Parrino and Starks (2001), Kaplan and Minton (2012) analyzed CEO turnover for a later period -- from 1992 to 2007. Since governance had been strengthened through the SOX legislation, etc. by this time, their attention turned to the question of whether changes in the corporate governance system influenced the probability of presidential turnover. According to the results of their analysis, there was an increase in the frequency of presidential turnover, and higher sensitivity to performance. Kaplan and Minton (2012) pointed to the increase in blockholders and the increasing independence of directors as factors contributing to these changes. On the other hand, Helwege, Intintoli, and Zhang (2011) examined presidential turnover since 1980, and found that while presidential turnover up to 1993 was based on the pressure of large shareholders and the threat of exit of institutional investors, the influence of the latter (threat of exit of institutional investors) on turnover had declined from 1994 to 2006.

On the other hand, more studies examining countries outside of the U.S. have begun to analyze whether the increase in foreign institutional investors has encouraged presidential turnover at poorly performing firms. Aggarwal, Erel, Ferreira and Matos (2011) examined the influence that changes in the ownership structure in 23 countries had on presidential turnover, and pointed out that increases in institutional investors increased the degree of presidential turnover toward corporate performance. On the other hand, Becht, Franks, Grant and Wagner (2015), which examined the role of hedge-fund activism in countries around the world, reported that in the Asia region (with Japanese firms comprising the majority of the sample), activism yielded meager results, and rarely influenced the appointment of company presidents.

2.2 Research on Japan

Research related to Japan has traditionally focused on the role of main banks in presidential turnover. Kaplan (1994) was the first to shed light on this role. His study analyzed the relationship between presidential turnover and performance in Japan and the U.S. in the 1980s, and pointed out that the Japanese main-bank system served the same function as the market for corporate control in the U.S. Subsequent studies examined the relationship between presidential turnover and performance, with Kang and Shivdasani (1995) analyzing the period from 1985 to 1990, and Abe (1997) analyzing

the period from 1974 to 1990. Moreover, Miyajima (1998) analyzed presidential turnover during five major recessionary periods between 1950 and the 1990s. All of these studies noted that as is the case in the U.S., when performance deteriorates in Japan, the probability of presidential turnover increases, and the stronger the ties to the main bank, the higher the degree of presidential turnover sensitivity to performance.

However, the corporate governance environment for Japanese firms has changed dramatically in recent years. How, then, have these changes in the corporate governance system influenced presidential turnover at Japanese firms? Is the main-bank system no longer performing a role in disciplining management? Has the increase in institutional investors, and foreign institutional investors in particular, exerted a real influence over presidential turnover? If so, what kind of mechanism can be assumed to exert this influence? And furthermore, is it possible to confirm whether the increase in independent outside directors has had the expected influence on presidential turnover? We have not come across any previous research that addresses these questions.

3. Presidential Turnover: Stylized Facts

3.1 Data

We randomly selected 500 firms from the First Section of the Tokyo Stock Exchange to compile two samples. Sample 1 consists of 400 firms chosen from 1,070 non-financial, non-public utility corporations listed as of 1990. Of these, 279 were still in existence in 2013. The attrition can be attributed to business failure, dissolution, acquisitions and mergers, and transformation into wholly owned subsidiaries. Sample 2 consists of 100 firms randomly selected from the 393 non-financial, non-public utility corporations that were either newly listed or had migrated their listing status on the First Section of the Tokyo Stock Exchange from 1991 to 2006. This selection procedure allowed us to compile two samples that largely reflect the distribution of firms listed on the First Section of the Tokyo Stock Exchange from 1990 to 2013.

The estimation period is from 1990 to 2013, and our financial variables were compiled basically with information from consolidated balance sheets. Furthermore, we divided the period of our study into three 8-year subperiods.

- 1990 – 1997: From the collapse of the bubble to the banking crisis
- 1998 – 2005: Post-banking crisis to the period of rapid transformation of the ownership structure
- 2006 – 2013: Period during which stock ownership structure stabilized and independent outside directors were gradually appointed.

The aim of this study is to shed light on, for the above three subperiods, (1) whether the frequency of presidential turnover and its sensitivity to performance changed; and (2) what kind of relationship exists between such change and the evolution in the corporate governance system.

3.2 Types of Presidential Turnover

Although there are various reasons for presidential, or top executive turnover, we can categorize two types of turnover – normal turnover that occurs after president serves for a certain period, and then voluntarily resigns due to illness or health-related reasons, and punitive turnover forced after problems arise with regard to managerial ability and low level of effort. Needless to say, it behooves governance research to pay attention to the latter punitive turnover, and to distinguish the punitive turnover from normal turnover[1].

Up to now, research has devoted considerable effort to drawing this distinction. For example, U.S. studies define resignations confirmed by newspapers and other media to have been caused by declining performance, etc. as punitive or forced turnover, as distinguished from voluntary, normal turnover (internal turnover), and have pursued their analyses with a focus on forced turnover.

By contrast, the standard practice for postwar Japanese corporations has been to appoint the incumbent president to the post of chairman or vice chairman after the conclusion of his tenure (two terms for four years, or three terms for

1. Parrino, Sias, and Starks (2003) distinguish forced turnover from normal turnover by consulting news stories in the Wall Street Journal. By contrast, Kaplan and Minton (2012) asserted that this determination could not be made from a reading of news stories, and instead analyzed all presidential turnovers.

six years), as the presidency is filled by a successor promoted from within the firm. This study assumes that, in contrast to the case in which a resigning president is appointed to the post of chairman or vice chairman (hereinafter, normal presidential turnover), when the resigning president does not take up the post of chairman or vice chairman, the turnover has a punitive component of some kind, and thus the turnover should be considered to be forced. Studies on Japanese firms up to now have viewed such cases as prototypical examples of forced turnover[2].

Of course, there are some Japanese firms that have adopted a custom of not appointing a retiring president to the post of chairman or vice chairman (for example, Honda Motor Co.)[3]. However, even in such firms, the retiring president is normally appointed advisory director, so when a retiring president does not remain as board member, the punitive aspect is even more pronounced. Thus, this study defines resignations in which the president does not remain with the firm as a director, a status that may also include the posts of chairman or vice chairman, to be cases of forced turnover[4].

In addition, a different type of turnover that includes a punitive element would occur when the incumbent president loses his position due to a takeover, business integration, or business failure. Kaplan and Minton (2012) refer to such cases as external turnover to distinguish them from cases of normal or forced turnover. External turnover was rare in Japanese firms prior to the first half of the 1990s, when there was little M&A activity, and firms facing financial hardship were rescued primarily through private bailout by main banks. But after the banking crisis, there was a rapid increase in forced turnover. For example, there were 135 cases of delisting from our sample during the period covered by our study, which is less than 10% of the 1,398 turnover cases among firms that remained in existence. Hence, in M&A and cases of debtor-in-possession corporate rehabilitation that allow the president to remain, we followed presidential turnover in such firms even after the delisting. For example, when presidential turnover follows the subsidiarization of a firm as the result of a takeover, we consider this to be a case of turnover of a forced nature, in contrast to cases in which there was no turnover as the president remained following subsidiarization.

When categorizing presidential turnover as normal or forced (with the president not able to assume the post of either chairman or vice chairman, nor to remain as a director), our yardstick was whether the president was serving as chairman, vice chairman, or director one year after resigning as president.

3.3 Turnover Pattern: Stylized Facts

Table 1 and Figure 1 summarize presidential turnover trends for 1990 – 2013. The presidential turnover ratio for 1990 – 2013 was 15.4%, with the average turnover ratio for 1990 – 1997 at 14.2%, rising somewhat to 16% for 1998 – 2005, and dipping to 15.4% for 2006 – 2013. Although the turnover ratio had fallen somewhat in 2013, we have concluded that the turnover probability has been on an upward trend since 1990.

Examining long-term trends in the tenure of incumbent presidents, as seen in Figure 2, we found that the average tenure of presidents who retired between 1990 and 2013 was 7.59 years. The length of tenure, aggregated by subperiod, declined from 8.34 years in 1990 – 1997, to 7.64 years in 1998 – 2005, and then to 6.83 years in 2006 – 2013.

Historically, presidential tenures were comparatively long until the 1960s, and there did not appear to be a strong correlation between presidential turnover and length of tenure (Miyajima 1996, Itami 1995, Miyajima 1998). However, entering the 1970s, following a shortening of presidential (CEO) tenure, and given tendency to treat the position of president's position as a job assignment within the firm (Itami 1995), there were signs that the length of presidential tenure began to increase slightly from the 1990s. On the basis of this premise, incorporating our data from this study, and using the first half of the 1990s as a benchmark, we discovered that the probability of presidential turnover began to increase and length of tenure once again began to decline from the latter half of the 1990s.

Furthermore, if we view this issue from an international perspective, considering that Kaplan and Minton (2012) estimated that the average CEO turnover probability at U.S. S&P 500 firms from 1990 to 2005 to be 15%, we could say that presidential turnover in Japanese firms occurred at largely the same degree of frequency. Furthermore, since Kaplan and Minton (2012) also point out that the average turnover probability at S&P 500 firms increased 3.7% points from 13.2% in 1990 – 1997 to 16.9% in 1998 – 2005, the upward trend in Japanese presidential turnover could be considered to be part of a global trend.

2. For example, Kang and Shivdasani (1995) and Kaplan (1994) have adopted this definition.
3. Honda Motor Co. is one of the most well-known corporations to have implemented such a practice, but there are also firms that have adopted policies preventing the appointment of a retiring president to the post of chairman.
4. In employing the above distinctions, it is necessary to exclude retirements triggered by death or illness. We confirmed whether such circumstances played a role by consulting newspapers.

Next we take a look at presidential turnover types, we find that the frequency of forced turnover increased from 1996 to 2002, and then from 2007 to 2010. The former period corresponds to the period of business reorganizations following the banking crisis, peaking in 2002, when 21 of 91 turnovers were forced turnovers. Furthermore, during the next peak year of 2008, 29 of the total of 72 turnovers were forced turnovers.

4. Has the Sensitivity of Presidential Turnover to Performance Changed?

4.1 Estimation Model

While presidential turnover was on a rising trend, was it sensitive to corporate performance? Using a probit model, we estimated the following standard model.

$$TURNi,j,t = F\ (Pi,t\ ,\ TENUi,t,\ FAMi,t,\ SUBi,t,\ FAMi,t*Pi,t,\ SUBi,t*Pi,t,\ CONT) \quad (1)$$

Here, *TURNi,j,t* is the presidential turnover for firm *i* at period *t*, and *j* is comprised of total turnover, normal turnover, and forced turnover. Turnover was determined by comparing the president who was approved at the general shareholders' meeting held immediately after the end of the accounting period for each firm to the office holder one year earlier. *Pi* is corporate performance, consisting of ROA, ROE, and stock returns (RET). Following Kaplan and Minton (2012), we use industry-adjusted performance. Industry-adjusted performance is calculated by subtracting the industry median value calculated from all firms listed in First Section of the Tokyo Stock Exchange, operating in the same industry[5]. It appears that up to now, disciplining of presidents (turnover) through intervention by banks (main banks) relied on performance prior to interest payments (ROA) as an index, but one issue that we will devote considerable attention to below is whether, as a result of the evolution of the corporate governance system after the banking crisis, the index for presidential turnover sensitivity to performance shifted to ROE, which is an indicator of the direct interests of shareholders, or stock returns[6].

TENUi,t is a variable denoting presidential turnover at firm *i* for period *t*, and was introduced to capture the seniority-system aspect that has been said to have played a role in presidential appointments[7]. More specifically, we constructed dummy variables for length of tenure -1- 2 years; 3 - 4 years; 7 - 8 years, and 9 or more years. Thus, the coefficients for the various dummy variables are indicators of the divergence from the turnover probability of a president, with the benchmark tenure lasting 5 – 6 years.

FAMi,t is the family-run firm dummy. Generally, presidential turnover at family-run firms occurs through hereditary succession, so presidential tenures are long, and turnover sensitivity to performance is low. FAM was introduced to control for this factor. We defined a family-run firm to be a firm in which the founding family held 5% or more of shares, and the president is either the founder, or related to the founder. We found that 22.6% of the firms in our total sample met these criteria.

SUBi,t is the subsidiary dummy. Since the appointment of the president at a firm that has another listed firm (listed holding company) as its controlling shareholder is made as part of the personnel policy of the entire group, it is assumed that presidential turnover sensitivity to performance is low under such conditions. This dummy was introduced to control for this influence on listed subsidiaries, which is considered to be a common phenomenon in Japan. A shareholding ratio of 30% held by another corporation was set as the threshold for subsidiaries. This dummy was employed for 13.7% of the firms in our sample.

The time-series distribution of the above dummy variables that indicate corporate characteristics are summarized in Table 2.

5. Aggarwal, Erel, Ferreira and Matos (2011) uses abnormal returns (stock price minus MSCI index), and Parrino, Sias, and Starks (2003) uses market-adjusted RET.
6. ROA = (operating profit +non-operating profit)/total assets; ROE = net income/shareholders' equity; RET= (stock price at end of fiscal year – stock price at end of previous fiscal year + dividend per share)/stock price at end of previous fiscal year.
7. Itami (1995) pointed out that from the 1970s, the office of president had turned into a job posting that adhered to seniority rule.

4.2 Estimation Results

The basic estimation results are compiled in Table 3. The following points deserve our attention.

First, presidential turnover was overall significantly negatively sensitive to all of the performance indices -- industry-adjusted ROA, ROE, and RET. A one standard deviation (4.1) decrease in ROA increased the presidential turnover probability by 3.2%, which corresponds to 20% of the average turnover probability of 15.6%. Furthermore, presidential turnover had a high correlation with presidential tenure. According to Model 1, holding all other variables in the model at their means, the probability of presidential turnover in years 1 or 2 after assuming office is 17.0% lower than the benchmark probability for a president in years 5 and 6 of his tenure, and the turnover probability is 7.15% lower for a president in years 3 and 4 of his tenure.

Second, the estimation results for presidential turnover, when classified as normal turnover and forced turnover, are presented in Models 4 and 5 in Table 3. While normal turnover was insensitive to performance[8], it was significantly sensitive to the dummies for 1 – 2 year tenure, and 3 – 4 year tenure. On the other hand, while the tenure dummy effect was small for forced turnover, the performance indices ROA, ROE, and RET were all significantly negative for forced turnover[9]. For example, a one standard deviation increase in ROA produces a 2.0% rise in the probability of forced presidential turnover, which is approximately half of the average of 4.1%.

Finally, we can confirm the influence of family succession and parent firms on presidential turnover. As is often pointed out, these factors reduce the frequency of presidential turnover. The coefficient of the constant term is negative, and the coefficient of the interaction term is positive. According to Model 1, the turnover probability at family-run firms is 8.8% lower than it is for other firms. Furthermore, presidential turnover sensitivity to performance (for example, -0.85 in Model 1) is largely cancelled out by the characteristics of the family-run firm (interaction term coefficient is 0.596).

In cases in which another corporation holds 30% or more of shares, the constant term is significantly positive, in contrast to family-run firms. On the other hand, we were not able to obtain sufficiently significant results for the interaction term coefficient. At such firms, where there is a strong tendency to appoint presidents as part of the overall personnel policy for the corporate group as a whole, the frequency of presidential turnover, compared to firms whose shares are dispersed, is estimated to be 7% higher overall, and 3% higher for forced turnover.

4.3 Period Effect and Performance Indices

Next, we will attempt to examine whether the probability of presidential turnover varied by period. Panel 1 of Table 4 added a period dummy to equation (1) for Period II (1998– 2005) and Period III (2006–2013), and reports only the estimation results for the period dummy[10]. The coefficients for the period dummy are all significantly positive. When looking at all turnover, the presidential turnover probability for Period II is 3.5% higher than that for Period I, and 2.7% higher than that for Period III due to the factors that cannot be traced to performance and the incumbent president's term in office. This period effect is even larger for forced turnover, and when ROA is used as the index for Periods II and III, the presidential turnover probability is 1.9% and 2.4% higher than in Period I. Since the average forced turnover ratio is 4.1%, this means that around half of the variation in turnover is due to performance and factors not related to period of incumbency[11]. Shedding light on the factors that increased the coefficient for these period dummies will be the focus of our analysis below.

8. The sensitivity of normal turnover to performance is not significant, even when ROE and RET are used as performance variables.
9. For forced turnover, we also estimated turnover for those cases in which the president was not able to assume the posts of chairman or vice chairman, but the level of significance, and the coefficient of determination were both higher when the president was not appointed to the board of directors.
10. The correlation between ROA, ROE, and stock returns for each period are as follows:

	Period I	Period II	Period III
ROA-ROE	0.39	0.39	0.56
ROA-RET	0.23	0.19	0.29
ROE-RET	0.12	0.16	0.18

11. During our sample period, there were no large variations in the effect of seniority factors (number of years worked) for each period.

4.4 Did the Degree of Presidential Turnover Sensitivity to Performance Change?

The changes in the governance structure of Japanese corporations in the 1990s were triggered by the declining status of creditors as debt contracted, and the rise in the status of shareholders as institutional investors increased. Such changes in the corporate governance structure lead one to expect a shift in the performance indices related to presidential turnover. Thus, we have estimated equation (1) above for each period to shed light on this point.

According to Panel 2 of Table 4, while the coefficient of ROA for Period III declined to almost half of that for Periods I and II for all presidential turnover, ROE nearly doubled from -0.16 to -0.29. This trend becomes even more apparent when we turn our attention to forced turnover, where the coefficient for ROE for Period III declines to less than a third of that for Period I (-0.46) to -0.131. When the size of the ROE is measured by multiplying one standard deviation by the coefficient, we find that it rises from 0.7% in Period I to 2.0% in Period III, we confirmed that ROE had become an important performance index to which forced presidential turnover is sensitive. Furthermore, upon entering Period III, presidential turnover becomes significantly sensitive toward stock returns. The above results are consistent with the view that the governance structure of Japanese corporations has begun to shift toward a structure that places more emphasis on shareholders.

We confirmed the robustness of the above results using the following methodology. Previous research including Kaplan and Minton (2012), focused on changes in profits, and not the profit level prior to turnover, so even if changes in industry-adjusted ROA and ROE are used as performance measure, the results are basically unchanged. The sample for this study is comprised of firms that was listed in the First Section of the Tokyo Stock Exchange by 1990, and newly emergent firms that were subsequently listed. There is a possibility that the differences in the characteristics of these two groups of firms determine the changes between above-noted periods. Therefore, we created Sample 1 for already existing firms, and attempted an estimation. The results will not be reported here, but we found that there were not major differences in results regarding the rising trend in presidential turnover, presidential turnover sensitivity to performance, and the shift in performance indices from ROA to ROE and stock returns.

Overall, presidential turnover at Japanese corporations, even during the period from 1990 to 2013, was significantly sensitive to performance, and thus it cannot be said that there has been a large void in corporate governance. However, we can assert that with regard to presidential turnover sensitivity to performance indices, those indices that directly represent the interests of shareholders such as ROE and stock return have grown in importance.

5. The Impact of Changes in the Governance System: The Declining Influence of Main Banks

Previous researches showed that main banks play the role of imposing discipline on the management of Japanese firms. Aoki (1994) proposed a theoretical model, and Kaplan (1994), Sheard (1994), Abe (1997), and Miyajima (1998) assumed that when a client firm's performance deteriorates, the main bank, which has a strong interest in the firm, will dispatch, while performing either its creditor or shareholder role, directors to strengthen monitoring, and when performance declines decisively, will in fact "take over" the board of directors, and generate initiative for presidential turnover. In this subsection, we examine whether main banks are still capable of disciplining management.

For this purpose, we estimated equation (2), which was formulated by adding a variable denoting the main bank (MB) relationship to equation (1).

$$TURNi,j,t = F\,(Pi,t,\ MBi,t,\ MBi,t*Pi,t,\ \text{Control}) \qquad (2)$$

The MB is dummy variable, which takes one, when main banks meet the following conditions. Main bank is the bank designated by the client to be the primary conductor of its banking transactions (based on the Kaisha Shikiho by Toyo Keizai Shinposha). For identifying main bank, we set following criterion.

(1) The relationship with the main bank is stable; i.e. the main bank has not changed for five years.

(2) Since a main bank relationship assumes that the client's dependency on loans from the main bank is at or above a certain level, the degree of loan dependency, or LA (bank loan/total assets) must be at or above the industry median for each year.

(3) Directors had been dispatched from the main bank.

We constructed the MB dummy variable for when all conditions (1), (2) and (3) were met[12]. The frequency of the firms with positive MB dummy was 23% for 1996 in Period I, and 12% in 2009 in Period III. The estimation results are summarized in Table 5.

In the MB dummy that sets dispatch of directors as a condition, the forced presidential turnover sensitivity to performance did lead to an increase that was limited to ROA, but the level of significance was not sufficiently high. On the other hand, the coefficient of the interaction term for ROE was similarly not sufficiently significant, but nevertheless positive, so a strong main bank relationship in fact reduces presidential turnover sensitivity to ROE, which is a direct indicator of the interests of shareholders.

When examining by period (Panel 2), we found that forced turnover sensitivity to ROE was reduced in Period I. The diminished effect that we find in the estimations over all periods is primarily a reflection of the relationship that is found in this first period, and is consistent with the conventional understanding (Hoshi and Kashyap 2001) that the additional financing supplied by main banks in the 1990s impeded business reorganization. By contrast, in Period II, the coefficient of the interaction term for ROA had a negative sign for all turnover and forced turnover, but was not statistically significant. In Period III, which coincided with a waning of main-bank relationships, the sign of the coefficient of the interaction term for ROA was negative and statistically significant at the 10% level. These results indicate that main banks also continued to influence presidential turnover even since 2006.

When we revise the MB dummy to MB2 to put the focus on shareholding, the influence on presidential turnover is somewhat diminished. By contrast, MB3, which sets the dispatch of directors as a condition, confirmed the same reduction in presidential turnover sensitivity to performance as noted above in Period I, but on the other hand, tended to increase presidential turnover sensitivity to performance in Period II, although at a lower level of significance. With regard to main bank influence on presidential turnover, we can conclude that what is important is whether the bank had dispatched directors at the beginning of the period.

The above results suggest that the firms with intimate relationships with main banks has declined dramatically over the past 20 years, but these relationships continue to play an importance role in corporate governance.

6. The Role of Institutional Investors

6.1 Increase in the Institutional Investor Ownership and Presidential Turnover

We now turn our attention to the question of whether institutional investors, who have rapidly increased their presence since the latter half of the 1990s, have actually influenced decision-making on presidential turnover. Aggarwal, Erel, Ferreira and Matos (2011) reported that firms in the countries in which foreign institutional investors had high shareholding ratios had high presidential turnover sensitivity to performance[13]. However, there are no studies that directly analyze what impact the rapid increase in institutional investors from the late 1990s had on presidential turnover.

To shed light on this question, we replaced MB in equation (2) with the variables institutional investor shareholding ratio and foreign institutional investor shareholding ratio. Institutional investor shareholding ratio are the total shareholding ratio of domestic and foreign institutional investors, of which domestic institutional investors are domestic institutional investors (funds managed by trust banks and asset management), whose ultimate capital investors are mainly pension funds, but their shareholdings are not fully captured due to source limitations[14]. On the other hand, the shareholdings of foreign institutional investors are the shareholdings held by foreigners from which the shareholdings of foreign business corporations have been excluded. Furthermore, we also created a dummy variable foreign institutional ownership dummy, which takes a value of 1, for firms whose foreign institutional investor shareholding ratios exceed 20%.

12. We constructed the MB2 variable for when both conditions (1) and (2) above were met, and the main bank's shareholding ratio was 3% or higher . The MB2 comprised 47% of the sample firms in 1996, and 24% in 2009.. The estimation result is almost the same, although significant level is slightly lower.
13. On the other hand, Becht, Franks, Grant and Wagner (2015) examined the role of hedge fund activism and reported that the results from activism in the Asia region, which comprises a major portion of the sample, were scant, and cases in which such activism influenced the appointment of a president were extremely rare.
14. For details, see Miyajima, Hoda, and Ogawa (2015).

The shareholding distribution for the observation period for institutional investors and foreign institutional investors is summarized in Table 2. The estimation results are summarized in Table 6.

Panel 1 presents results for the shareholding ratio for all institutional investors, and Panel 2 presents results for the foreign institutional investor shareholding ratio. The results for both panels are similar. For forced presidential turnover, the interaction term for the institutional investor shareholding ratio and performance is at the 1% level of significance for ROE. The level of the institutional investor shareholding ratio at the beginning of the period influences presidential turnover. While main banks raised presidential turnover sensitivity to ROA, a high institutional investor shareholding ratio, or the foreign institutional investor ratio raised the presidential turnover sensitivity to ROE. When the foreign institutional investor shareholding ratio is 20%, a one standard deviation decline in ROE leads to a 0.68% (0.002 x 0.17 x 20%) increase in the forced turnover ratio. Furthermore, the result is the same even when the foreign investor shareholding ratio is replaced in the aggregate value with the 20%+ shareholding dummy[15].

Furthermore, results obtained after narrowing the institutional investor effect down to that of foreign institutional investors, and running estimations for each period are presented in Panel 3. We confirmed that there was a significant influence on ROE in Periods II and III. In Periods II, the forced turnover ratio increased 1.3%, when the foreign investor shareholding ratio rose 3%. On the other hand, the coefficient of the interaction term for foreign institutional ownership and ROE for Period III is -0.001, or larger than the -0.004 obtained for Period II, which at first glance seems to suggest that the influence has decreased, but since the constant term declined from -0.057 to -0.119, we should place more emphasis on the fact that the rise in the foreign institutional investor shareholding ratio has the effect on average of raising sensitivity. Moreover, when the foreign institutional investor shareholding ratio is replaced with the 20%+ shareholding dummy variable, the results are nearly identical, confirming the increase in presidential turnover sensitivity to ROE in Periods II and III at a statistically significant level.

Hence, the institutional investor shareholding ratio at the beginning of the period had a significant influence on the degree of presidential turnover sensitivity to ROE. In the next subsection, we examine what the mechanism leads to higher sensitivity.

6.2 The Engagement of Blockholders

A rise in the institutional investor shareholding ratio can influence presidential turnover when institutional investors who hold a certain level of shares exercise their voting rights, or engage with the firm to influence presidential turnover. There is a possibility that the two types of blockholders – domestic institutional investors and foreign institutional investors – perform different roles in this regard. While domestic institutional investors who may have some kind of business relationship with the firms they invest in may wield less influence, foreign institutional investors who have a higher degree of independence from the firms they invest in are able to exercise more actual influence (Ferreira and Matos 2008, Giannetti and Laeven 2009).

To examine the influence of blockholders, we constructed a dummy variable which takes the value of 1, when single entity institutional investor hold more than 3% ownership, and replaced institutional investor shareholding ratio[16]. This analysis was made possible for the first time by utilizing data supplied by FactSet. Empirical analysis up to now did not sufficiently take into consideration the fact that the management of voting rights of institutional investors, which increased entering the 2000s, had been delegated to trust banks and custodians (for example, Master Trust Bank of Japan, and for foreign institutional investors, State Street), and that most of the top shareholders on the lists of the ten largest shareholders of firms with high institutional investor shareholding ratios were such custodians[17]. The shareholdings of these custodians included the holdings by multiple institutional investors, and thus was not an indication of the actual shareholdings of each investing entity. While caution needs to be exercised when using Fact Set data[18], which was not obtained from a comprehensive survey, it is valuable for the reporting of the ultimate holding entity, and we use this data to analyze the effect of blockholders. The estimation is for the period after 2006, when the

15. The 20%+ shareholding dummy coefficient is 0.173 at the 5% level of significance.
16. While research up to now has used a threshold value of 5% (Holderness 2009), which is a standard that matches the reporting requirements for large shareholding reports. However, the incidence of ratios at 5% or higher is lower than at 3% or higher (an average of 19.7% from 2006 – 2013). Furthermore, there is no clear basis for the 5% threshold, and since there is a tendency for investors to keep their shareholding ratio below the large shareholding reporting threshold, we used a threshold of 3%, the level at which the rights of minority shareholders are protected.
17. The sole exception is Hoda (2016).
18. For example, while data collected for 2006 yields a foreign shareholding ratio of 24%, FactSet data yields a foreigner shareholding ratio of 14%, which is a coverage of only around 60%. For this point, also see Hoda (2016).

institutional investor shareholding ratio peaked[19].

Table 7 presents the distribution of institutional investor blockholders. Around 40% of sample firms had institutional investors that held 3% or larger blocks. Of these, domestic institutional investors such as Mitsui Sumitomo Trust, Nomura Asset Management had invested in 23% of the sample firms and foreign institutional investors around 27%. We should make the following two points with regard to blockholder shares.

First, the shareholding ratio of the institutional investors increased, and the emergence of such outsider blockholders has been one of the major evolution to have occurred since the mid-2000s, but the presence of these blockholders is still quite low when compared to the situation in the U.S. and U.K. For example, in the U.S., where the stock ownership structure is understood to have a high degree of dispersion, and ownership of the shares of listed firms by other businesses and banks is considered to be rare, 89% of the firms on the S&P 500 report the existence of blockholders owning 5% or more of shares (Holderness 2009, p. 1378).

Second, there are huge biases in the dispersion of blockholders by firm size. As emphasized in an earlier study (Miyajima and Hoda 2015), institutional investors, and foreign institutional investors in particular, have a strong investment bias toward size and liquidity, which is confirmed in Panel 2 of Table 7. When divided into four quartiles by market capitalization, 33% of firms in the fourth quartile (¥1.451 billion yen or more) have at least one foreign institutional investor holding 3% or more (and 17% of these firms have a foreign institutional investor holding 5% or more of shares), while only 9.3% of firms in the first quartile have a foreign institutional investor who holds blocks of 3% or more (and 3.6% had foreign institutional investors who hold blocks of 5% or more). On the other hand, domestic institutional investors target somewhat different firms, with blockholder shareholding highest in the third quartile. These results are consistent with our interview results that show that while foreign institutional investors have practically restricted their investment to firms with market capitalization ranking from 300 to 400 that comprise the MSCI index, domestic institutional investors prefer non-MSCI index firms.

Estimation results are summarized in Table 8, when we replace institutional shareholdings ratio with block holder dummy.

When we did not distinguish between domestic and foreign institutional investors, and added 3% blockholders dummy to the explanatory variable, the coefficient of the interaction term with performance was in all cases not significant. However, what is worthy of attention is that when a distinction is drawn between domestic institutional investor blocks and foreign institutional investor blocks, the results differ greatly. The results are shown in Model 2. The sign of the interaction term for domestic institutional investors and performance is positive, and when ROA is used as the performance variable, it is significant at the 5% level for both all turnover and forced turnover. This is consistent with the view that the actions of domestic institutional investors are constrained by business ties with client firms (Ferreira and Matos 2008). By contrast, the sign of the coefficient of the interaction term for the foreign institutional investor shareholding ratio and performance is negative, and when ROE is used as the performance variable, the results are significant at the 5% level for both all turnover and forced turnover. The existence of foreign institutional investor blockholders, who, unlike domestic institutional investors, are unencumbered by business ties with client firms, particularly with respect to ROE, which is a direct indicator of the interests of shareholders, increases presidential turnover sensitivity to performance to a statistically significant degree. Although there are only a limited number of cases in which foreign institutional investors are blockholders, once foreign institutional investors possess blocks of shares, we can assume that they influence presidential turnover through the exercise of voting rights, engagement.

6.3 Threat of exit (voting with their feet)

Channels such as voice and intervention are not the only means through which a rise in the institutional investor shareholding ratio may affect presidential turnover. Since most institutional investors, their increasing presence notwithstanding, lack sufficient commitment to intervene in the management of firms with declining performance, there is a possibility that they instead sell off their shares in such firms, and the selling serves via a declining stock price to encourage presidential turnover (Parrino, Sias, and Starks 2003). This is an example of so-called voting with feet. If such a channel were operative, then presidential turnover might be influenced by not only the level of institutional investor shareholdings at the beginning of the period, but also the decline in institutional investor shareholdings in the previous period.

19. We have not conducted an estimation for 2005 and preceding years because we have reservations pertaining to FactSet's coverage of these years.

Thus, in order to shed light on this point, we shall focus on foreign institutional investors, who invest in Japanese firms as part of their international portfolio diversification, and examine the relationship between changes in their shareholding ratio and presidential turnover[20]. Table 9 presents changes in the foreign institutional investor shareholding ratio for 1 period before turnover (t0), and the share of cases in which there has been a 2% or more decline for the four presidential turnover patterns: all turnover, normal turnover, forced turnover, and no turnover.

This table shows that for 1998-2005 (Period II), there were no significant differences in the distribution of changes in foreign institutional ownership between turnover and no turnover, and normal turnover and forced turnover. By contrast, for 2006 – 2013 (Period III), the distribution of changes in foreign institutional ownership immediately prior to turnover was negative only for forced turnover, and there was a significant difference in the decline in forced turnover and no turnover. This relationship becomes even more apparent when viewing percentage shares when there is a decline of 2% or more. More than 25% of firms in cases of forced turnover, and 22% of firms in all turnovers saw a decline of 2% or more in the foreign institutional investor shareholding ratio, which is higher to a statistically significance degree compared to the incidence of 16.9% for firms with no turnover. These results suggest that there is a possibility that there was a change in the behavior of foreign institutional investors preceding presidential turnover between the period up to 2005, when the shareholding ratio for foreign institutional investors was rising, and the period from 2006, when the ratio was stabilizing on average. This suggests the possibility that a segment of foreign institutional investors sold off their shareholdings when firm performance deteriorated in Period III. If the channel influences presidential turnover through selling of shares and declining stock prices, then unless the firm has a high foreign institutional investor shareholding ratio that was observed in the previous period, there is a possibility that the mechanism of voting with feet will not be operative. Therefore, we attempted the same estimation for each instance in which the foreign institutional investor shareholding ratio was 10% or higher at the beginning of the previous year period (i.e. the end of the year prior to the immediately preceding year) for each observation year beginning with 2006. The results, shown in Panel 2, are that when presidential turnover occurs, unlike in cases when it does not occur, there is a decline in the foreign institutional investor shareholding ratio, and the difference is at the 5% level of confidence.

Furthermore, while more probing analysis is essential, we can tentatively conclude that as foreign institutional investor shareholding ratios have increased since 2006, their voting with their feet has begun to influence presidential turnover.

7. The Role of Independent Outside Directors

7.1 Independent Outside Directors and Presidential Turnover

One of the changes in Japanese corporate governance in the 2000s has been that as board reform has led to the appointment of more independent outside directors, the boards of directors, which had traditionally functioned as management boards that were involved in execution of managerial policy, have gradually transformed into monitoring boards whose primary function is to monitor management. In this section, we will examine the degree of influence that such board reform has had on rises in the frequency of presidential turnover, and changes in the performance indices to which such turnover is sensitive that have occurred in the 2000s.

In our estimation model, we added an independent director dummy to equation (2). According to Weisbach (1988), which is a pioneering study on this topic, the members of boards of directors can be classified into (1) inside directors, (2) outside directors, and (3) gray directors from an entity with business dealings with the firm. Outsider directors (category (2) above) were found to have a significant influence on presidential turnover. And independent outside directors under Japan's Company Law largely correspond to category (2) above. Hence, we confirmed data for outside directors that closely correspond to the definition for category (2) above from Nikkei NEEDS, and constructed a dummy for firms that appointed at least one independent outside director, which takes the value of 1, and a dummy for firms that appointed 3 or more independent outside directors, which takes a value of 1. The incidence of independent outside director dummy and 3 or more independent outside directors dummy for the entire period 2006 – 2013 was 46% and 11% respectively, and 61% and 14% for the year 2013.

The estimation results are presented in Table 10. Panel 1 shows the results for the presence of outside director dummy, and reveals that for all performances indices, the coefficient for the interaction for independent outside directors and performance, was, against our expectations, positive and partly significant. Thus, we discovered that there was a tendency for independent outside directors to reduce presidential turnover sensitivity to performance. Firms that

20. As seen from the figures in Table 7, the shareholdings of domestic institutional investors have a relatively higher weighting of blockholders, and are more passively managed.

appoint independent outside directors have presidential turnover sensitivity to performance that is 30% lower than that of firms without independent outside directors (0.047/-0.152).

On the other hand, if we add dummy variable for 3or more independent outside directors, the interaction term for ROA is negative at a 1% level of significance for forced turnover, and thus increases presidential turnover sensitivity to ROA[21]. These results suggest that the appointment of only one independent outside director not only does not increase presidential turnover sensitivity to performance, but rather potentially has a window-dressing effect that reduces sensitivity; and that the appointment of 3 or more independent outside directors may raise presidential turnover sensitivity to performance. In order to test the robustness of this point, we also conducted the following estimations. We constructed dummy variables for cases in which firms had 1, 2, or 3 or more independent outside directors. The interaction term for performance and the dummy variables were positive for the one and two independent outside director dummies, and significantly negative for the 3 or more dummy variable. We replaced the dummy variables with a continuous variable for the independent outside director ratio, and introduced a 30% or more dummy, and then conducted estimations for both cases. The interaction term for the independent outside director and performance was not significant, and for the 30% or more dummy was significant at a 1% level of significance.

From the above results, we can conclude that the relationship between independent outside directors and the presidential turnover sensitivity to performance was not linear, and that there are quite clear thresholds for 3 directors, and for a board composition of 30%.

7.2 The Complementarity of Institutional Investors and Independent Outside Directors

There is a possibility that there is a complementary or substitutive relationship between the governance effect of independent outside directors and institutional investor shareholding ratios. On the one hand, the window dressing effect of independent outside directors may be alleviated by strong pressure from institutional investors. On the other hand, however, institutional investors have a preference for firms that appoint independent outside directors, so if firms formalistically appoint independent outside directors for the purpose of attracting institutional investors, the window-dressing effect could be further amplified.

Furthermore, although the management disciplining effect of appointing multiple independent outside directors (the case of three or more directors was tested here) may come into play for the first time with pressure from institutional investors, it is also possible that the effect could be noticeably manifested to substitute for institutional investors[22]. So lastly, we divided our sample into two parts with a threshold institutional investor shareholding ratio of 20%, and re-estimated the effect of independent outside directors.

The results are presented in Table 11. The window-dressing effect of independent outside directors for those firms whose institutional investor shareholding ratio is under 20% had coefficients and significance levels that were quite high. For firms whose institutional investor shareholding ratio is 20% or higher, only those that had appointed multiple independent outside directors had presidential turnover sensitivity that was significantly negative toward performance, suggesting that there is a complementary relationship between the two.

8. Conclusion

In our analysis above, we explored the relationship between presidential turnover and firm performance for 1990 – 2013. Entering the 1990s, the frequency of presidential turnover at Japanese firms increased. Furthermore, Japanese presidential turnover was negatively sensitive to performance to a significant degree. But that does not mean that the relationship between declining performance at firms and presidential turnover has been severed over the past 20 years. In fact, the biggest change that has occurred during this period is that the performance index that presidential turnover is sensitive to has shifted from ROA, the index for performance preceding interest payments, to ROE and stock returns, which are directly related to shareholder interests. This result is consistent with the evolution of the corporate governance system as seen in the dissolution of cross-shareholding, the rise in the foreign institutional investor ownership, and board reform. However, it is believed that this influence is not as strong as it has been in the U.S., where presidential

21. Even when a dummy is introduced for cases in which half or more of board members are independent outside directors, the same results are obtained, and the interaction term with ROA is especially significantly high (t-ratio of 5.7). However, when this dummy variable takes 1, the ratio is 1.54% of the entire sample, and there were only 5 cases in which forced turnovers were observed.

22. Uchida (2012) has obtained estimation results that indicate that the performance effect of independent outside directors is substitutive for institutional investors.

turnover has traditionally been sensitive to stock returns, and where the degree of this sensitivity has risen in recent years.

The traditional main bank system has not been entirely deprived of its management-disciplining function. While the scope of main-bank authority may have substantially contracted, for those firms that are highly dependent on banks for loans, and to which main banks have dispatched directors, main banks continue to perform a certain role in disciplining management.

On the other hand, the rapid increase in the level of institutional investor shareholding, and foreign institutional investor shareholding in particular, since the end of the 1990s has not only increased the frequency of presidential turnover but also increased presidential turnover sensitivity to performance. These results show that institutional investors have supplanted the main bank system and begun to function as a mechanism for disciplining management. In this manner, foreign institutional investor shareholding has become an important mechanism for raising presidential turnover sensitivity to performance along with blockholding and the pressure that arises from voting with feet. However, it is necessary to pay sufficient attention to the fact that the functioning of these mechanisms is limited to those firms with large market capitalization that are well known to foreign institutional investors.

Finally, independent outside directors play a role in raising the presidential turnover sensitivity to performance only if there are multiple appointments of such directors to a board. As to whether appointment of independent outside directors raises presidential turnover sensitivity to performance, the estimation results obtained in this study show that when only one or two such directors are appointed to a board, the window-dressing effect exceeds the management-disciplining effect. In order to have an actual effect on presidential turnover, the important conditions are that at least three independent outside directors must be appointed to the board, or that independent outside directors must comprise at least 30% of the board.

There has clearly been a change in the relationship between presidential turnover and performance between 2006 and 2013 as compared to the relationship that existed prior to 1998. However, although there has been substantial change, this does not mean presidential turnover at Japanese firms in recent years has become highly sensitive to ROE and stock returns that directly reflect shareholder value. It is probably appropriate to describe the current situation as falling somewhere between behavior exhibited by Japanese firms and American firms in the past. We will have to continue to examine this situation closely while monitoring future developments to determine whether Japanese firms are in a transitional phase that is converging on the U.S. model of corporate governance, or have achieved a new stable corporate governance.

9. References

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Table 1. Trends in Presidential Turnover

The sample consists of 500 firms randomly selected from the First Section of the Tokyo Stock Exchange. The position of the president after resigning is the position held one year after retirement. Forced turnover is considered to occur when the president resigns, and is not appointed to the post of chairman or vice chairman, or to another type of directorship, and excludes reasons such death and illness.

	Sample size	Presidential Turnover	Ratio	Turnover after M&A	Turnover after collapse	Chairman, vice chairman after resigning	Directorship after resigning	Ratio	Forced Turnover	Forced Turnover Ratio
	(a)	(b)	(b)/(a)			(c)	(d)	((c)+(d))/(b)	(e)	(e)/(a)
1990	400	48	12.0%	0	0	36	8	92%	4	1.0%
1991	400	55	13.8%	2	0	46	4	91%	5	1.3%
1992	401	65	16.2%	1	0	45	8	82%	12	3.0%
1993	401	39	9.7%	1	0	29	4	85%	6	1.5%
1994	403	64	15.9%	2	0	38	10	75%	16	4.0%
1995	405	53	13.1%	0	0	43	7	94%	3	0.7%
1996	413	60	14.5%	1	2	34	7	68%	19	4.6%
1997	414	52	12.6%	1	3	29	7	69%	16	3.9%
1998	414	68	16.4%	3	1	39	9	71%	20	4.8%
1999	414	66	15.9%	3	3	40	8	73%	18	4.3%
2000	438	69	15.8%	0	0	36	9	65%	24	5.5%
2001	443	62	14.0%	3	11	33	5	61%	24	5.4%
2002	429	91	21.2%	3	0	58	12	77%	21	4.9%
2003	430	66	15.3%	1	1	42	5	71%	19	4.4%
2004	429	60	14.0%	2	0	37	6	72%	17	4.0%
2005	430	61	14.2%	4	0	36	11	77%	14	3.3%
2006	426	77	18.1%	2	0	41	7	62%	29	6.8%
2007	418	63	15.1%	1	0	43	5	76%	15	3.6%
2008	412	72	17.5%	5	1	36	7	60%	29	7.0%
2009	401	62	15.5%	2	0	28	9	60%	25	6.2%
2010	395	61	15.4%	1	1	32	4	59%	25	6.3%
2011	387	50	12.9%	2	1	30	2	64%	18	4.7%
2012	380	58	15.3%	1	0	39	2	71%	17	4.5%
2013	376	44	11.7%	3	0	33	3	82%	8	2.1%
Sum	9859	1466	14.9%	44	24	903	159	72%	404	4.1%
1990-1997	3,237	436	13.5%	8	5	300	55	81%	81	2.5%
1998-2005	3,427	543	15.8%	19	16	321	65	71%	157	4.6%
2006-2013	3,195	487	15.2%	17	3	282	39	66%	166	5.2%

Table 2. Corporate Governance of Sample Firms

The sample consists of 500 firms randomly selected from the First Section of the Tokyo Stock Exchange. When the firm has a stable relationship with a bank that it has designated as being responsible for most of its banking transactions (Toyo Keizai Shinposha. Kaisha Shikiho), the bank was considered to be its main bank.

	1990	1996	1999	2001	2006	2009	2013	All
Sample（No. of firms）	400	413	414	443	426	401	376	8466
Sample 1 (Mature・Existing firms)	400	394	380	372	330	302	277	1393
Sample 2 (New or newly listed firms）	0	19	34	71	96	99	99	9859
Main bank shareholding (%)	4.11	4.06	3.84	3.34	2.43	2.32	2.17	3.20
Main bank 3%or more	0.9%	83.3%	77.3%	64.6%	42.3%	40.1%	36.7%	61.8%
Main bank dispatches director	43.5%	36.1%	36.0%	32.7%	27.9%	22.9%	22.6%	32.3%
Average shareholding of founder/family (%)	3.93	4.60	4.94	6.62	6.70	6.78	6.83	5.57
Percentage of firms with blockholders with 5% or larger share	21.3%	21.8%	21.6%	23.9%	23.9%	24.2%	23.7%	22.6%
Shareholding of parent firm (%)	5.79	5.34	5.79	5.99	7.12	7.54	7.48	6.33
Percentage of firms with parent firms holding 30% or larger share	13.5%	12.3%	13.0%	13.3%	16.0%	16.5%	16.0%	14.2%
Institutional investor shareholding (%)	8.90	11.73	11.17	13.13	21.68	21.70	24.94	15.72
Foreign institutional investor shareholding (%)	3.28	6.94	6.68	6.44	14.48	13.09	16.64	9.18
Percentage of firms with foreign institutional ownership 20% or higher	0.0%	4.4%	9.4%	7.4%	29.8%	25.2%	35.6%	14.0%
Percentage of firms with Independent outside director	NA	NA	NA	NA	37.4%	43.3%	61.4%	NA
Percentage of firms with 3 or more independent outside directors	NA	NA	NA	NA	8.2%	11.3%	13.6%	NA
Percentage of board who are Independent outside directors (%)	NA	NA	NA	NA	5.67	7.65	11.59	NA

Table 3. Results of Analysis of Influence of Corporate Performance on Presidential Turnover

The sample consists of 500 firms randomly selected from the First Section of the Tokyo Stock Exchange. The period of analysis is from 1990 to 2013. Industry-adjusted performance is calculated by subtracting the median of the industry to which each firm belongs from each firm's performance. Industry medians were calculated using data on all firms listed on the Tokyo, Osaka, and Nagoya Stock Exchanges. Normal presidential turnover is defined to occur when the president takes up the post of chairman or vice chairman after resigning as president. Forced turnover is defined to occur when the president does not take up the post of chairman, vice chairman, or other directorship after resigning as president. Resignations due to death and illness are excluded. The analysis was conducted using a probit model. Marginal effects are in the upper row, and cluster-robust standard errors are in the lower row. The clusters are at the firm level. *** denotes 1% level of significance, ** 5% level of significance, and *10% level of significance.

Dependent variable =	All presidential turnover	All presidential turnover	All presidential turnover	Normal presidential turnover	Normal presidential turnover	Normal presidential turnover	Forced presidential turnover	Forced presidential turnover	Forced presidential turnover
Performance indices	ROA	ROE	RET	ROA	ROE	RET	ROA	ROE	RET
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9
Industry performance (median)	-0.424	-0.261	0.002	-0.167	-0.174	0.004	-0.233 **	-0.074	-0.001
	(0.279)	(0.237)	(0.021)	(0.199)	(0.150)	(0.012)	(0.113)	(0.083)	(0.012)
Industry-adjusted performance	-0.785 ***	-0.179 ***	-0.038 **	-0.170	-0.035 *	0.000	-0.482 ***	-0.079 ***	-0.031 **
	(0.151)	(0.024)	(0.017)	(0.110)	(0.018)	(0.002)	(0.083)	(0.008)	(0.013)
Log (revenue)	0.003	0.003	0.001	0.008 ***	0.009 ***	0.008 ***	-0.004 ***	-0.005 ***	-0.007 ***
	(0.003)	(0.003)	(0.003)	(0.002)	(0.002)	(0.002)	(0.001)	(0.001)	(0.001)
Presidential tenure 1～2 years（dummy）	-0.168 ***	-0.168 ***	-0.168 ***	-0.130 ***	-0.130 ***	-0.130 ***	-0.027 ***	-0.028 ***	-0.028 ***
	(0.013)	(0.012)	(0.013)	(0.010)	(0.010)	(0.010)	(0.004)	(0.004)	(0.004)
Presidential tenure 3 ~ 4 years (dummy)	-0.071 ***	-0.070 ***	-0.070 ***	-0.065 ***	-0.065 ***	-0.065 ***	0.001	0.002	0.001
	(0.010)	(0.009)	(0.010)	(0.007)	(0.007)	(0.007)	(0.003)	(0.004)	(0.004)
Presidential tenure 7～8 years（dummy）	-0.004	-0.004	-0.006	0.000	0.000	0.000	-0.004	-0.003	-0.005
	(0.011)	(0.011)	(0.012)	(0.007)	(0.008)	(0.007)	(0.005)	(0.005)	(0.005)
Presidential tenure 9 or more years（dummy）	-0.039 ***	-0.041 ***	-0.044 ***	-0.016 **	-0.016 **	-0.017 **	-0.022 ***	-0.024 ***	-0.026 ***
	(0.010)	(0.010)	(0.010)	(0.008)	(0.008)	(0.008)	(0.004)	(0.004)	(0.004)
Age 70 or older（dummy）	0.139 ***	0.144 ***	0.143 ***	0.108 ***	0.110 ***	0.109 ***	0.020 ***	0.022 ***	0.023 ***
	(0.018)	(0.018)	(0.018)	(0.015)	(0.015)	(0.016)	(0.006)	(0.007)	(0.007)
Family-run firm（dummy）	-0.085 ***	-0.084 ***	-0.087 ***	-0.054 ***	-0.056 ***	-0.054 ***	-0.022 ***	-0.023 ***	-0.028 ***
	(0.008)	(0.008)	(0.008)	(0.006)	(0.006)	(0.006)	(0.005)	(0.005)	(0.005)
Family-run firm×Industry-adjusted performance	0.596 ***	0.023	-0.050 **	0.061	-0.084 *	-0.070 ***	0.359 *	0.501 *	0.020
	(0.124)	(0.062)	(0.023)	(0.127)	(0.045)	(0.020)	(0.211)	(0.277)	(0.026)
Subsidiary（dummy）	0.072 ***	0.077 ***	0.070 ***	0.030 ***	0.032 ***	0.029 ***	0.032 ***	0.036 ***	0.031 ***
	(0.008)	(0.009)	(0.017)	(0.008)	(0.007)	(0.009)	(0.004)	(0.005)	(0.005)
Subsidiary×Industry-adjusted performance	0.084	0.078	0.017	0.248	0.036	0.012	0.067	0.034 *	0.014
	(0.290)	(0.058)	(0.052)	(0.243)	(0.056)	(0.042)	(0.097)	(0.018)	(0.019)
Pseudo-R^2	0.096	0.100	0.090	0.100	0.101	0.100	0.104	0.104	0.075
Sample size	9857	9854	9837	9857	9854	9837	9857	9854	9837

Table 4. Results of Analysis of Degree of Presidential Turnover Sensitivity to Performance

The sample consists of 500 firms randomly selected from the First Section of the Tokyo Stock Exchange. The period of analysis is from 1990 to 2013. Industry-adjusted performance is calculated by subtracting the median of the industry to which each firm belongs from each firm's performance. Industry medians were calculated using data on all firms listed on the Tokyo, Osaka, and Nagoya Stock Exchanges. Forced turnover is defined to occur when the president does not take up the post of chairman, vice chairman, or other directorship after resigning as president. Resignations due to death and illness are excluded. Panel 2 only displays performance results from the analytical results estimated for each period. The analysis was conducted using a probit model. Marginal effects are in the upper row, and cluster-robust standard errors are in the lower row. The clusters are at the firm level. *** denotes 1% level of significance, ** 5% level of significance, and *10% level of significance.

Panel 1 : Dummy effect by period

Dependent variable =	All presidential turnover	Normal presidential turnover	Forced presidential turnover	Forced presidential turnover	Forced presidential turnover
Performance indices=	ROA	ROA	ROA	ROE	RET
	Model 1	Model 2	Model 3	Model 4	Model 5
Industry-adjusted performance	-0.797 ***	-0.170	-0.220 ***	-0.078 ***	-0.030 **
	(0.149)	(0.110)	(0.037)	(0.008)	(0.012)
Period Ⅱ (1998～2005) (dummy)	0.035 ***	0.015 *	0.019 ***	0.017 **	0.024 ***
	(0.010)	(0.008)	(0.006)	(0.007)	(0.007)
Period Ⅲ (2006～2013) (dummy)	0.027 **	0.000	0.024 ***	0.025 ***	0.025 ***
	(0.011)	(0.006)	(0.007)	(0.008)	(0.008)
Control variable	YES	YES	YES	YES	YES
Pseudo-R^2	0.099	0.100	0.113	0.114	0.085
Sample size	9857	9857	9857	9854	9837

Panel 2: Coefficient of industry-adjusted performance variable, estimation by period

Dependent variable =	All presidential turnover			Forced presidential turnover			Normal presidential turnover		
Performance indices=	ROA	ROE	RET	ROA	ROE	RET	ROA	ROE	RET
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 4	Model 5	Model 6
Period Ⅰ (1990～1997)	-1.125 ***	-0.157 ***	-0.083 **	-0.403 ***	-0.046 ***	-0.032	-0.548 ***	-0.075 *	-0.044 **
	(0.210)	(0.036)	(0.034)	(0.119)	(0.014)	(0.021)	(0.103)	(0.041)	(0.020)
Period Ⅱ (1998～2005)	-0.970 ***	-0.144 ***	-0.036 *	-0.625 ***	-0.076 ***	-0.023	-0.191	-0.009	-0.009
	(0.264)	(0.028)	(0.020)	(0.155)	(0.007)	(0.019)	(0.158)	(0.017)	(0.015)
Period Ⅲ (2006～2013)	-0.537 ***	-0.291 ***	-0.015	-0.428 ***	-0.131 ***	-0.046 *	0.039	-0.022	0.040 *
	(0.202)	(0.049)	(0.039)	(0.119)	(0.011)	(0.024)	(0.164)	(0.040)	(0.022)

Table 5. Effect of Main Bank on Degree of Presidential Turnover Sensitivity to Performance

The sample consists of 500 firms randomly selected from the First Section of the Tokyo Stock Exchange. The period of analysis is from 1990 to 2013. Industry-adjusted performance is calculated by subtracting the median of the industry to which each firm belongs from each firm's performance. Industry medians were calculated using data on all firms listed on the Tokyo, Osaka, and Nagoya Stock Exchanges. Forced turnover is defined to occur when the president does not take up the post of chairman, vice chairman, or other directorship after resigning as president. Resignations due to death and illness are excluded. If borrowing from the main bank exceeds the industry median, and the relationship with the main transactional bank is stable, and the main bank has dispatched a director to the firm, the main bank dummy takes the value of 1. Of the analytical results obtained per period, Panel 2 presents only the results of the interaction term for the main bank dummy and performance. The analysis was conducted using a probit model. Marginal effects are in the upper row, and cluster-robust standard errors are in the lower row. The clusters are at the firm level. *** denotes 1% level of significance, ** 5% level of significance, and *10% level of significance.

Panel 1: Estimations for all periods

Dependent variable=	All presidential turnover	Forced presidential turnover	Forced presidential turnover	Forced presidential turnover
Performance indices=	ROA	ROA	ROE	RET
	Model 1	Model 2	Model 3	Model 4
Industry-adjusted performance	-0.667 ***	-0.436 ***	-0.085 ***	-0.030 ***
	(0.145)	(0.085)	(0.010)	(0.011)
Main bank (dummy)	0.006	0.008 *	0.013 ***	0.018 ***
	(0.010)	(0.005)	(0.004)	(0.005)
Main bank x Industry-adjusted performance	-0.693 ***	-0.171	0.019	-0.001
	(0.271)	(0.106)	(0.012)	(0.025)
Control variable	YES	YES	YES	YES
Pseudo-R^2	0.097	0.107	0.107	0.080
Sample size	9857	9857	9854	9837

Panel 2: Estimation by period, interaction term for main bank and performance

Dependent variable =	All presidential turnover	Forced presidential turnover	Forced presidential turnover	Forced presidential turnover
Performance indices=	ROA	ROA	ROE	RET
	Model 1	Model 2	Model 3	Model 4
Period I (1990 - 1997)				
Industry-adjusted performance	-9.730 ***	-0.390 ***	-0.058 ***	-0.044 *
	(1.974)	(0.124)	(0.014)	(0.026)
Main bank (dummy)	0.040 ***	0.015 ***	0.021 ***	0.019 ***
	(0.014)	(0.006)	(0.005)	(0.005)
Main bank x industry-adjusted performance	-0.325	0.056	0.036 **	0.030
	(0.570)	(0.136)	(0.018)	(0.034)
Period II (1998 - 2005)				
Industry-adjusted performance	-0.790 ***	-0.544 ***	-0.072 ***	-0.019
	(0.244)	-(0.168)	(0.015)	(0.013)
Main bank (dummy)	-0.020	0.015 **	0.018 ***	0.030 ***
	(0.018)	(0.007)	(0.005)	(0.007)
Main bank x industry-adjusted performance	-1.225 ***	-0.217	0.002	-0.006
	(0.364)	(0.150)	(0.022)	(0.024)
Period III (2006 - 2013)				
Industry-adjusted performance	-0.472 **	-0.388 ***	-0.126 ***	-0.039 *
	(0.205)	(0.120)	(0.018)	(0.022)
Main bank (dummy)	0.006	-0.002	0.004	0.005
	(0.022)	(0.006)	(0.007)	(0.007)
Main bank x industry-adjusted performance	-0.460	-0.285 *	-0.015	-0.036
	(0.438)	(0.176)	(0.033)	(0.036)

Table 6. The Effect of Foreign Institutional Investors on the Degree of Sensitivity of Presidential Turnover

The sample consists of 500 firms randomly selected from the First Section of the Tokyo Stock Exchange. The period of analysis is from 1990 to 2013. Industry-adjusted performance is calculated by subtracting the median of the industry to which each firm belongs from each firm's performance. Industry medians were calculated using data on all firms listed on the Tokyo, Osaka, and Nagoya Stock Exchanges. Forced turnover is defined to occur when the president does not take up the post of chairman, vice chairman, or other directorship after resigning as president. Resignations due to death and illness are excluded. Estimation results for the institutional investor shareholding ratio are presented in Panel 1, and for the foreign institutional investor shareholding ratio in Panels 2 and 3. Panel 3 presents analytical results by period. The analysis was conducted using a probit model. Marginal effects are in the upper row, and cluster-robust standard errors are in the lower row. The clusters are at the firm level. *** denotes 1% level of significance, ** 5% level of significance, and *10% level of significance.

Panel 1. Institutional Investor Shareholding Ratio

Dependent variable	All presidential turnover	All presidential turnover	All presidential turnover	Forced presidential turnover	Forced presidential turnover	Forced presidential turnover
Performance indices	ROA	ROE	RET	ROA	ROE	RET
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Industry-adjusted performance	-1.116 ***	-0.154 ***	-0.057 ***	-0.566 ***	-0.064 ***	-0.034 *
	(0.218)	(0.026)	(0.025)	(0.089)	(0.009)	(0.020)
Institutional investor shareholding ratio	0.0002	0.0001	-0.0003	0.0003	0.0000	-0.0001
	(0.001)	(0.000)	(0.001)	(0.000)	(0.000)	(0.000)
Institutional investor shareholding ratio x industry-adjusted performance	0.0150 **	-0.0029 *	0.0010	0.0032	-0.0020 ***	0.0001
	(0.008)	(0.002)	(0.001)	(0.004)	(0.000)	(0.001)
Control variable	YES	YES	YES	YES	YES	YES
Pseudo-R^2	0.097	0.100	0.089	0.103	0.106	0.074
Sample size	9673	9670	9666	9673	9670	9666

Panel 2. Foreign institutional investor shareholding ratio

Dependent variable	All presidential turnover	All presidential turnover	All presidential turnover	Forced presidential turnover	Forced presidential turnover	Forced presidential turnover
Performance indices=	ROA	ROE	RET	ROA	ROE	RET
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Industry-adjusted performance	-1.021 ***	-0.165 ***	-0.040 *	-0.533 ***	-0.069 ***	-0.030 *
	(0.190)	(0.024)	(0.023)	(0.083)	(0.008)	(0.016)
Foreign institutional investor shareholding ratio	0.0006	0.0003	-0.0001	0.0005	0.0002	0.0001
	(0.001)	(0.001)	(0.001)	(0.000)	(0.000)	(0.000)
Foreign institutional investor shareholding ratio x industry-adjusted performance	0.0151	-0.0027	0.0002	0.0033	-0.0020 ***	-0.0001
	(0.010)	(0.002)	(0.001)	(0.005)	(0.001)	(0.001)
Control variable	YES	YES	YES	YES	YES	YES
Pseudo-R^2	0.097	0.100	0.090	0.106	0.108	0.075
Sample size	9856	9853	9837	9856	9853	9837

Panel 3: Estimation results by period for interaction term for foreign institutional investor shareholding ratio and performance

Dependent variable =	All presidential turnover	All presidential turnover	All presidential turnover	Forced presidential turnover	Forced presidential turnover	Forced presidential turnover
Performance indices=	ROA	ROE	RET	ROA	ROE	RET
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Period Ⅰ (1990 - 1997)						
Industry-adjusted performance	-1.363 ***	-0.152 ***	-0.085 **	-0.316 **	-0.044 **	-0.044 ***
	(0.279)	(0.046)	(0.042)	(0.142)	(0.020)	(0.019)
Foreign institutional investor shareholding ratio	-0.001	-0.001	-0.001	0.000	0.000	0.000
	(0.002)	(0.002)	(0.002)	(0.001)	(0.001)	(0.001)
Foreign institutional investor shareholding ratio x industry-adjusted performance	0.044 **	0.000	0.001	-0.018	0.000	0.002 **
	(0.020)	(0.006)	(0.005)	(0.011)	(0.003)	(0.001)
Period II (1998-2005)						
Industry-adjusted performance	-1.198 ***	-0.118 ***	-0.046	-0.646 ***	-0.057 ***	-0.024
	(0.267)	(0.024)	(0.033)	(0.163)	(0.007)	(0.023)
Foreign institutional investor shareholding ratio	-0.001 *	-0.001	-0.002 **	0.000	-0.001	-0.001
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Foreign institutional investor shareholding ratio x industry-adjusted performance	0.0257 *	-0.0051	0.0012	0.0032	-0.0042 **	0.0003
	(0.015)	(0.006)	(0.002)	(0.012)	(0.002)	(0.001)
Period III (2006 - 2013)						
Industry-adjusted performance	-0.596 *	-0.288 ***	0.001 ***	-0.470 ***	-0.119 ***	-0.038
	(0.306)	(0.051)	(0.046)	(0.119)	(0.011)	(0.030)
Foreign institutional investor shareholding ratio	0.001	0.001	0.001	0.000	0.000	0.000
	(0.001)	(0.001)	(0.001)	(0.000)	(0.000)	(0.000)
Foreign institutional investor shareholding ratio x industry-adjusted performance	0.0005	-0.0002	-0.0011	0.0018	-0.0010 *	-0.0006
	(0.013)	(0.002)	(0.002)	(0.006)	(0.001)	(0.001)

Table 7. Distribution of Institutional Investor Block Shareholding

The sample consists of 500 firms randomly selected from the First Section of the Tokyo Stock Exchange. Data pertaining to blockholders was obtained from FactSet. Due to problems with data availability, we limited our analysis to 2006 and following years. Since some firms have both domestic and foreign blockholders, the total number of firms reporting domestic blockholders and foreign blockholders exceeds the total number of firms reporting blockholders. The market capitalization quartiles in Panel 2 were demarcated at ¥16.5 billion, ¥40.6 billion, and ¥145.0 billion.

Panel 1:Firms with blockholders with 3% or larger shareholdings

	Blockholders		Blockholder breakdown	
	None	Exist	Domestic	Foreign
2006	204	154	110	72
2007	197	163	109	96
2008	208	153	101	80
2009	234	127	83	69
2010	251	111	62	74
2011	244	118	62	78
2012	242	119	65	74
2013	213	148	82	98

Panel 2: 4th Quartile of Market Capitalization and Blockholder Ratio

	Smaller←Market Capitalization→Larger			
	1	2	3	4
Ratio of Firms with Blockholders（%）	18.95%	29.47%	51.15%	49.93%
Ratio of Firms with Domestic Institutional Investor Blockholders（%）	12.54%	19.60%	33.06%	27.28%
Ratio of Firms with Foreign Institutional Investor Blockholders（%）	9.33%	15.31%	29.42%	33.25%

Table 8. Estimation Results for Institutional Investor Blockholders

The sample consists of 500 firms randomly selected from the First Section of the Tokyo Stock Exchange. Industry-adjusted performance is calculated by subtracting the median of the industry to which each firm belongs from each firm's performance. Industry medians were calculated using data on all firms listed on the Tokyo, Osaka, and Nagoya Stock Exchanges. The period of analysis is from 2006 to 2013. Forced turnover is defined to occur when the president does not take up the post of chairman, vice chairman, or other directorship after resigning as president. Resignations due to death and illness are excluded. The analysis was conducted using a probit model. Marginal effects are in the upper row, and cluster-robust standard errors are in the lower row. The clusters are at the firm level. *** denotes 1% level of significance, ** 5% level of significance, and *10% level of significance.

Dependent variable =	All presidential turnover	All presidential turnover	All presidential turnover	Forced presidential turnover	Forced presidential turnover	Forced presidential turnover
Performance indices=	ROA	ROE	RET	ROA	ROE	RET
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Model 1						
Industry-adjusted performance	-0.316 *	-0.165 ***	-0.014	-0.390 ***	-0.100 ***	-0.020
	(0.185)	(0.054)	(0.032)	(0.046)	(0.020)	(0.012)
Blockholders (dummy)	-0.017	-0.018	0.021	0.006	0.003	0.001
	(0.016)	(0.017)	-(0.017)	(0.008)	(0.007)	(0.004)
Blockholders x industry-adjusted performance	0.120	-0.118	0.016	0.233	-0.016	0.009
	(0.293)	(0.135)	(0.056)	(0.175)	(0.049)	(0.013)
Model 2						
Industry-adjusted performance	-0.257	-0.162 ***	-0.015	-0.314 ***	-0.095 ***	-0.021 *
	(0.186)	(0.052)	(0.033)	(0.049)	(0.019)	(0.012)
Domestic institutional investor blockholders (dummy)	-0.018	-0.009	-0.016	0.001	0.003	0.000
	(0.020)	(0.019)	(0.021)	(0.007)	(0.006)	(0.003)
Domestic institutional investor blockholders x industry-adjusted performance	0.741 **	0.270	0.035	0.335 *	0.074	0.0140
	(0.314)	(0.218)	(0.046)	(0.188)	(0.066)	(0.012)
Foreign institutional investor blockholders (dummy)	-0.011	-0.024	-0.017	0.001	-0.005	0.000
	(0.012)	(0.016)	(0.013)	(0.008)	(0.009)	(0.004)
Foreign institutional investor blockholders x industry-adjusted performance	-0.067 **	-0.426 **	-0.021	-0.236 **	-0.093 **	0.000
	(0.029)	(0.194)	(0.040)	(0.108)	(0.040)	(0.014)

Table 9. Changes in the Foreign Institutional Investor Shareholding Ratio Prior to Presidential Turnover

The sample consists of 500 firms randomly selected from the First Section of the Tokyo Stock Exchange. The change in the foreign institutional investor shareholding ratio is obtained by subtracting the ratio at the end of the year from the ratio at the end of the previous year. Forced turnover is defined to occur when the president does not take up the post of chairman, vice chairman, or other directorship after resigning as president. Resignations due to death and illness are excluded. Normal turnover is defined as occurring when the president assumes the post of chairman or vice chairman after resigning. *** denotes 1% level of significance, ** 5% level of significance, and *10% level of significance.

	All turnover (a)	Normal turnover (b)	Forced turnover (c)	Other (d)	t-ratio (a)vs(d)		(b)vs(c)		(c)vs(d)	
1998-2005 (n=3140)										
Change in foreign institutional investor shareholding ratio (%)	0.717	0.680	0.630	0.848	0.863		0.152		0.809	
Decline of 2% or greater (dummy)	11.22%	14.72%	6.21%	11.18%	0.025		2.607	***	1.869	*
2006-2013 (n=3136)										
Change in foreign institutional investor shareholding ratio (%)	0.053	0.261	-0.213	0.240	1.177		1.409		1.744	*
Decline of 2% or greater	22.06%	19.49%	25.47%	16.89%	2.724	***	1.459		2.790	***
Foreign shareholding ratio is 10% or greater at beginning of period, 2006-2013 (n=1630)										
Change in foreign institutional investor shareholding ratio (%)	-0.217	0.132	-0.781	0.078	1.125		1.622		1.890	*
Decline of 2% or greater	32.43%	29.56%	37.66%	25.75%	2.229	**	1.248		2.311	**

Table 10. The Effect of Independent Outside Directors on Presidential Turnover Sensitivity to Performance

The sample consists of 500 firms randomly selected from the First Section of the Tokyo Stock Exchange. The period of analysis is from 2006 to 2013. Industry-adjusted performance is calculated by subtracting the median of the firm's industry from each firm's performance. Industry medians were calculated using data on all firms listed on the Tokyo, Osaka, and Nagoya Stock Exchanges. Forced turnover is defined to occur when the president does not take up the post of chairman, vice chairman, or other directorship after resigning as president. Resignations due to death and illness are excluded. The independent outside director dummy takes 1 if at least one independent outside director has been appointed. The 3 or more independent outside directors dummy takes 1 if 3 or more independent outside directors have been appointed. The analysis was conducted using a probit model. Marginal effects are in the upper row, and cluster-robust standard errors are in the lower row. The clusters are at the firm level. *** denotes 1% level of significance, ** 5% level of significance, and *10% level of significance.

Panel 1. The Effect of Independent Outside Directors

Dependent variable =	All presidential turnover	All presidential turnover	All presidential turnover	Forced presidential turnover	Forced presidential turnover	Forced presidential turnover
Performance indices=	ROA	ROE	RET	ROA	ROE	RET
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Industry-adjusted performance	-0.604 ***	-0.295 ***	-0.005 *	-0.529 ***	-0.152 ***	-0.063 **
	(0.163)	(0.042)	(0.003)	(0.109)	(0.015)	(0.028)
Independent outside director (dummy)	0.012	0.011	0.015	0.003	0.003	0.002
	(0.011)	(0.012)	(0.009)	(0.007)	(0.006)	(0.007)
Independent outside director x industry-adjusted performance	0.169	0.013	-0.024	0.237	0.047 **	0.040 **
	(0.375)	(0.077)	(0.035)	(0.149)	(0.023)	(0.016)
Control variable	YES	YES	YES	YES	YES	YES
Pseudo-R^2	0.092	0.104	0.090	0.107	0.131	0.095
Sample size	3188	3188	3188	3188	3188	3188

Panel 2. The Effect of the Number of Independent Outside Directors

Dependent variable =	All presidential turnover	All presidential turnover	All presidential turnover	Forced presidential turnover	Forced presidential turnover	Forced presidential turnover
Performance indices=	ROA	ROE	RET	ROA	ROE	RET
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Industry-adjusted performance	-0.591 ***	-0.290 ***	-0.005	-0.485 ***	-0.151 ***	-0.063 **
	(0.160)	(0.041)	(0.047)	(0.104)	(0.015)	(0.029)
Independent outside director (dummy)	0.008	0.010	0.012 *	0.001	0.001	0.000
	(0.009)	(0.016)	(0.007)	(0.008)	(0.008)	(0.006)
Independent outside director x industry-adjusted performance	0.441	0.042	-0.029	0.352 ***	0.053 **	0.039 **
	(0.355)	(0.061)	(0.037)	(0.133)	(0.025)	(0.016)
3 or more independent outside directors (dummy)	0.020 *	0.008	0.013	-0.001	0.012	0.016
	(0.011)	(0.012)	(0.011)	(0.009)	(0.014)	(0.014)
3 or more independent outside directors x industry-adjusted performance	-1.972 **	-0.188 **	0.028	-1.436 ***	-0.037	0.001
	(0.935)	(0.093)	(0.095)	(0.353)	(0.029)	(0.045)
Control variable	YES	YES	YES	YES	YES	YES
Pseudo-R^2	0.095	0.105	0.090	0.118	0.132	0.096
Sample size	3188	3188	3188	3188	3188	3188

Table 11. The Relationship between the Effect of Independent Outside Directors and the Foreign Institutional Investor Shareholding Ratio

The sample consists of 500 firms randomly selected from the First Section of the Tokyo Stock Exchange. The period of analysis is from 2006 to 2013. Industry-adjusted performance is calculated by subtracting the median of the firm's industry from each firm's performance. Industry medians were calculated using data on all firms listed on the Tokyo, Osaka, and Nagoya Stock Exchanges. Forced turnover is defined to occur when the president does not take up the post of chairman, vice chairman, or other directorship after resigning as president. Resignations due to death and illness are excluded. The independent outside director dummy takes 1 if at least one independent outside director has been appointed. The 3 or more independent outside directors dummy takes 1 if 3 or more independent outside directors have been appointed. The analysis was conducted using a probit model. Marginal effects are in the upper row, and cluster-robust standard errors are in the lower row. The clusters are at the firm level. *** denotes 1% level of significance, ** 5% level of significance, and *10% level of significance.

Panel 1. The Effect of Independent Outside Directors when Divided by Foreign Institutional Investor Shareholding Ratio

	Foreign Institutional Investor Shareholding Ratio below 20%			Foreign Institutional Investor Shareholding Ratio at 20% or above		
Dependent variable=	Forced presidential turnover	Forced presidential turnover	Forced presidential turnover	Forced presidential turnover	Forced presidential turnover	Forced presidential turnover
Performance indices=	ROA	ROE	RET	ROA	ROE	RET
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Industry-adjusted performance	-0.633 ***	-0.174 ***	-0.063 **	-0.300 **	-0.092 ***	-0.080 *
	(0.170)	(0.015)	(0.030)	(0.138)	(0.033)	(0.047)
Independent outside director (dummy)	-0.003	-0.003	-0.005	0.020 ***	0.021 **	0.022 ***
	(0.012)	(0.010)	(0.010)	(0.008)	(0.009)	(0.008)
Independent outside director x industry-adjusted performance	0.223 **	0.053 ***	0.039 *	0.125	0.000	0.011
	(0.104)	(0.018)	(0.020)	(0.219)	(0.020)	(0.008)
Control variable	YES	YES	YES	YES	YES	YES
Pseudo-R^2	0.103	0.127	0.090	0.107	0.108	0.096
Sample size	2320	2320	2320	868	868	868

Panel 2. The Effect of the Number of Independent Outside Directors Divided by Foreign Institutional Investor Shareholding Ratio

	Foreign Institutional Investor Shareholding Ratio below 20%			Foreign Institutional Investor Shareholding Ratio at 20% or above		
Dependent variable =	Forced presidential turnover	Forced presidential turnover	Forced presidential turnover	Forced presidential turnover	Forced presidential turnover	Forced presidential turnover
Performance indices=	ROA	ROE	RET	ROA	ROE	RET
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Industry-adjusted performance	-0.620 ***	-0.173 ***	-0.065 **	-0.202 ***	-0.088 ***	-0.078 *
	(0.167)	(0.015)	(0.031)	(0.050)	(0.032)	(0.045)
Independent outside director (dummy)	-0.005	-0.007	-0.008	0.010	0.022 *	0.020 *
	(0.013)	(0.011)	(0.011)	(0.009)	(0.012)	(0.011)
Independent outside director x industry-adjusted performance	0.270 ***	0.046 **	0.021	0.326 **	0.114	0.064 *
	(0.090)	(0.022)	(0.020)	(0.154)	(0.120)	(0.033)
3 or more independent outside directors (dummy)	0.014	0.031	0.018	-0.009	-0.004	0.000
	(0.016)	(0.020)	(0.018)	(0.012)	(0.016)	(0.017)
3 or more independent outside directors x industry-adjusted performance	-0.829 **	0.089	0.161 **	-1.586 ***	-0.174	-0.074 **
	(0.364)	(0.126)	(0.073)	(0.530)	(0.152)	(0.034)
Control variable	YES	YES	YES	YES	YES	YES
Pseudo-R^2	0.106	0.129	0.095	0.168	0.119	0.102
Sample size	2320	2320	2320	868	868	868

Figure 1. Trends in the Presidential Turnover Ratio

The sample consists of 500 firms randomly selected from the First Section of the Tokyo Stock Exchange. Forced turnover is defined to occur when the president does not take up the post of chairman, vice chairman, or other directorship after resigning as president. Resignations due to death and illness are excluded. The presidential turnover ratio is calculated by dividing the annual number of presidential turnovers by the sample size. The forced turnover ratio is calculated by dividing the annual number of forced turnovers by the sample size.

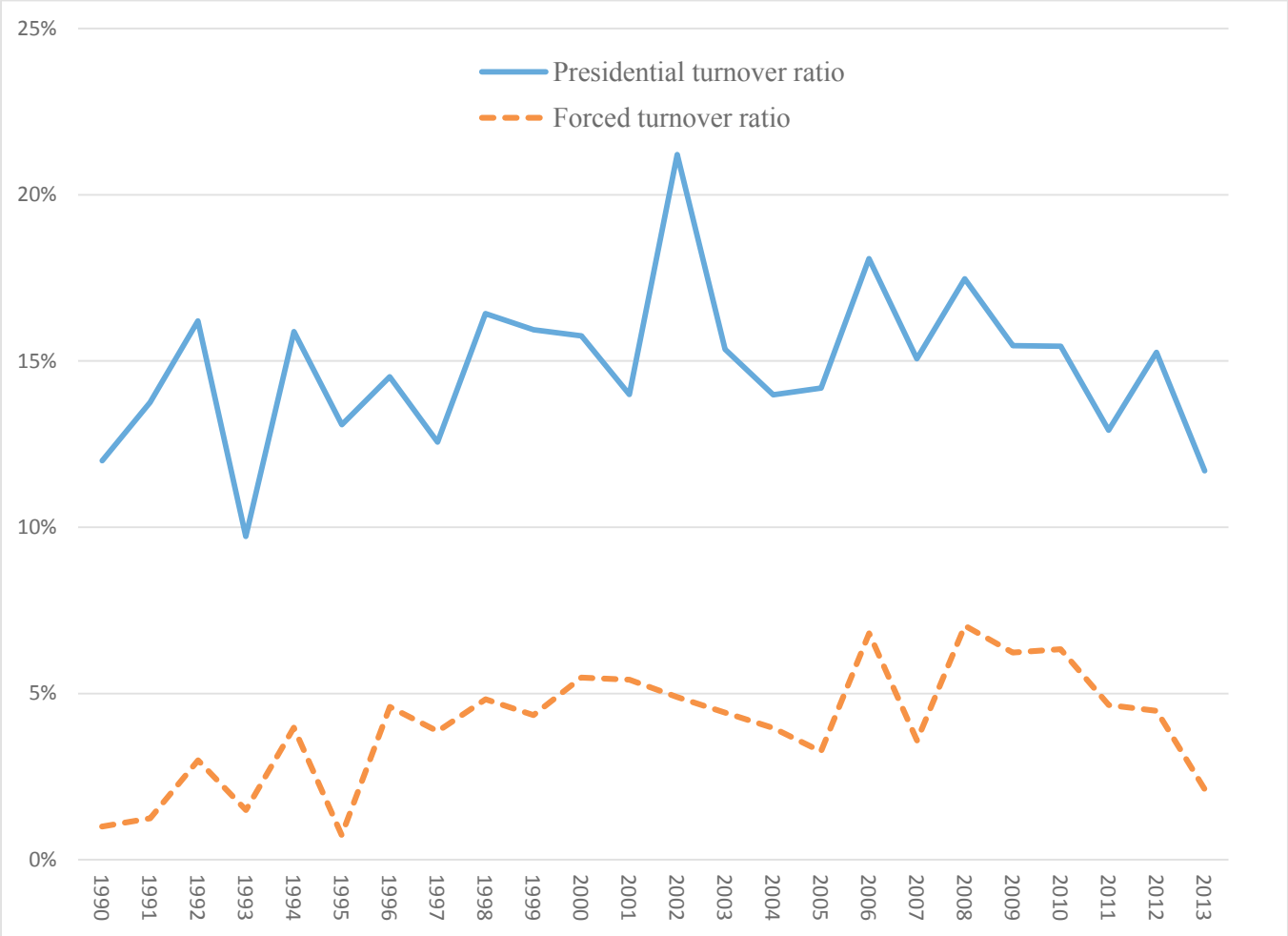
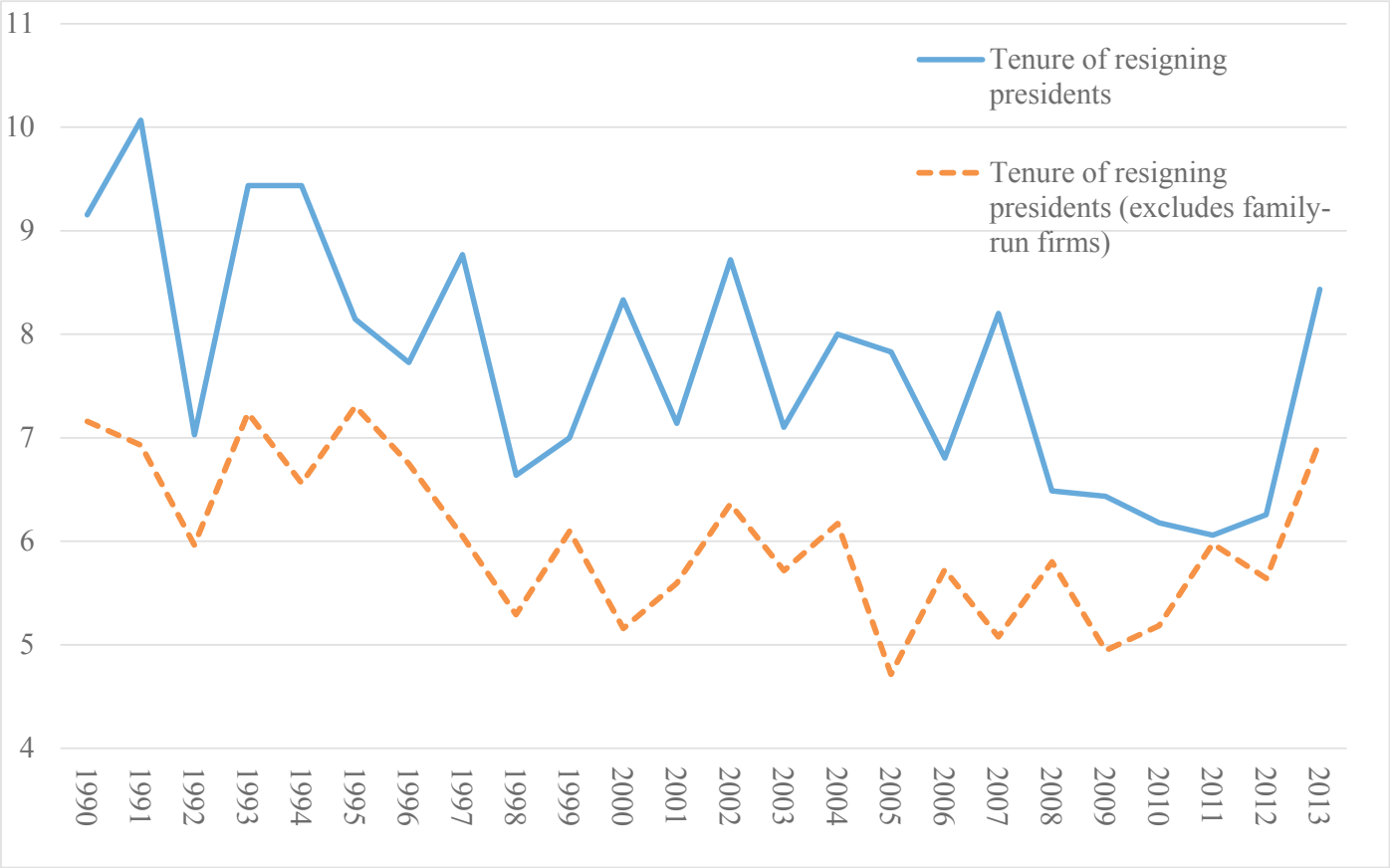


Figure 2. Trends in the Tenure of Resigning Presidents

The sample consists of 500 firms randomly selected from the First Section of the Tokyo Stock Exchange. The solid line shows the average tenure of presidents who resign each year. The dotted line presents the average tenure of presidents who resign each year, excluding presidents who are founders, or members of founding families that possess 5% or larger shareholdings.