The Board Structure and Performance in IPO Firms: Evidence from Stakeholder-Oriented Corporate Governance

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Abstract: This study investigates the internal mechanisms as an important factor for shareholders and stakeholders in initial public offering (IPO) firms with stakeholder-oriented corporate governance. Over the period of 2009–2016, we examine the role of independent directors in Japanese stakeholder-oriented corporate governance. According to previous research, the monitoring role of independent directors is strengthened in countries with a market-based financial system. Our empirical analyses show that independent directors do not effectively mitigate conflicts among shareholders such as IPO underpricing in a stakeholder-oriented corporate governance framework. Alternatively, accounting expertise may contribute to mitigating IPO underpricing in accordance with U.S. corporations. The participation of bank-affiliated directors in IPO firms further contributes to the mitigation of underpricing. Accordingly, these findings imply that bank ties through Horizontal Keiretsu’s bank-appointed directors are critical for mitigating conflicts among shareholders in IPO firms. These results imply that stakeholder-oriented corporate governance systems contribute to reducing conflicts among stakeholders.

Keywords: expertise; Horizontal Keiretsu; internal control; independent directors; IPO underpricing; sustainable developments

1. Introduction

An initial public offering (IPO) is a crucial transitional stage in a corporation’s development as it moves from the private to the public arena. Moreover, internal corporate governance plays a critical role in the sustainable development of corporations [1,2]. In particular, previous studies have examined the relationship between IPO underpricing and board characteristics [3–5]. Additionally, board independence has a positive impact on IPO firms’ survival or corporate sustainability [5]. These studies, however, focus primarily on countries with market-oriented corporate governance, such as the U.S. and the U.K. This study investigates whether internal corporate governance mechanisms play an effective role in monitoring IPO firms under stakeholder-oriented corporate governance.

Recent studies have analyzed the roles of stakeholder-oriented corporate governance to achieve sustainable corporate growth. In emerging countries, stakeholder orientation would result in long-term orientation [6]. For example, a powerful CEO contributes to enhancing firm innovation in an emerging country with stakeholder orientation [7]. Among developed countries, Japanese corporate governance is stakeholder-oriented [8,9]. In fact, corporate innovations progress in family firms with stakeholder orientation [10]. Sustainable corporate performance and growth are also realized in effective monitoring mechanisms under stakeholder-oriented corporate governance in Japan [11].

From the perspective of international corporate governance, national institutions affect firm-level corporate governance practices [12]. To illustrate firm-level corporate governance practices under stakeholder-oriented corporate governance, we focus on Japanese corporations [8,13]. Under the stakeholder-oriented system, corporations strive to balance
the interests of all stakeholders, such as banks and employers [14]. In other words, the role of effective external corporate governance mechanisms, such as board independence, was not expected under stakeholder-oriented corporate governance during the 1990s [8].

Agency theory predicts that board monitoring helps to mitigate agency costs by aligning the interests of controlling shareholders and those of the managers [15]. Especially for IPO firms, the roles of board monitoring are stronger in shareholder-oriented corporate governance and weaker in non-Anglo-Saxon countries [16]. Under stakeholder-oriented corporate governance, steward managers substituting for weaker board monitoring might be a feature of the stakeholder-oriented corporate governance [8]. In this sense, the examination of board monitoring in Japanese IPO firms would reveal whether the roles of stewards under stakeholder-oriented corporate governance are effective in IPO firms.

In IPO firms, the role of internal corporate governance, such as board characteristics, is crucial for investors and stakeholders. In practice, smaller boards with more independent directors are recommended. According to the Sarbanes–Oxley Act (Sox Act) of 2002, it is recommended that boards establish audit committees that consist only of independent directors. In many countries, it is necessary to have greater outside board representation [17]. In the U.S., board independence mitigates the level of underpricing in IPO firms [18]. The monitoring role of board independence is likely to function in market-based countries among IPO firms [16]. Accordingly, the role of board independence might be characterized differently in different market systems.

Given the above discussion, we identify a research gap linked to whether independent directors or directors with expertise provide effective monitoring in IPO firms under stakeholder-oriented corporate governance. Previous studies have not indicated whether the monitoring role of board independence in IPO firms is effective in stakeholder-oriented corporate governance. Since the 2000s, the Japanese SME markets have been established for the development of IPO firms [19]. These newly listed IPO firms may experience agency problems due to the inadequate monitoring of stakeholder-oriented corporate governance.

National-level corporate governance characteristics such as stakeholder orientation would substitute for the roles of board independence for IPO firms in non-Anglo-American countries [16]. In market-oriented systems, the expertise of the firm’s board of directors is crucial in ensuring the quality of the prospectus in the pre-IPO stage [20]. The information asymmetry problems between management and shareholders can be mitigated by the presence of board members with accounting-based expertise in the U.S. [21]. On the other hand, the bank–firm relationship matters for stakeholder-oriented corporate governance [22]. Bank-affiliated directors might play an important role in monitoring within IPO firms.

We examine whether the expertise of the board of directors can mitigate the problem of asymmetric information among IPO firms in a bank-centered economy. In particular, this study predicts that the roles of bank-affiliated directors are beneficial for mitigating IPO underpricing in a bank-centered economy. It has been found that the monitoring roles associated with bank–firm lending relationships are effective in Japanese IPO firms [23]. Bank lending relationships are especially strong in the IPO firms with additional bank-appointed board members in Japan [23]. As for the monitoring role of the banks, the three largest banks, Mitsubishi UFJ, Mizuho, and Sumitomo Mitsui Banking Corporations, have been the central pillars of Horizontal Keiretsu group since the financial merger of 2005 [24]. These effective monitoring roles played by banks mitigate accounting fraud [25], substitute for accounting conservatism in their client firms [22], improve the disclosure quality of analyst forecasts [26], and enhance the quality of earnings [27]. Moreover, IPO underpricing is mitigated by monitoring within Horizontal Keiretsu groups, which took place before the merger and acquisition era in the Japanese banking sector [28].

We examine data of Japanese IPOs between 2009 and 2016. The key findings are summarized below. First, we found no association between board independence and IPO underpricing. This implies that independent directors are unlikely to play a monitoring role in Japanese IPO firms under a stakeholder-oriented corporate governance framework. Second, accounting-based expertise mitigates underpricing in Japanese IPO firms. Finally,
the main bank-affiliated directors who are associated with Horizontal Keiretsu-affiliated banks also help mitigate underpricing in Japanese IPO firms.

This study makes significant contributions to the literature. First, we present new evidence concerning the role of independent directors in Japan. In market-based countries, board independence is likely to enhance IPO performance [16]. Our study implies that the monitoring role of board independence is ineffective in a country with a bank-based market system. This finding supports the implication of Zattoni et al. [16]. Second, outside directors with accounting expertise can mitigate IPO performance. This finding is consistent with evidence from the U.S. [21]. This implies that accounting expertise is crucial for Japanese IPO firms. Finally, we find that the bank-affiliated directors at Horizontal Keiretsu mitigate IPO performance. The monitoring within Horizontal Keiretsu groups to mitigate complexity in the 1990s [28] is still effective following the mergers of central banks within Horizontal Keiretsu groups [24]. This suggests that stakeholder corporate governance systems contribute to mitigating conflict among stakeholders and enhancing the sustainable growth of IPO firms.

The remainder of this paper is organized as follows. Section 2 discusses literature reviews and hypotheses development. Section 3 describes the data collection and sample selection procedure. Section 4 summarizes our empirical results. Finally, Section 5 presents the conclusions.

2. Institutional Settings and Hypotheses Development

Researchers and practitioners in several fields have discussed the relationship between internal corporate governance mechanisms and firm performance. An effective corporate governance mechanism can mitigate agency problems between management and external shareholders [15] and contribute to generating sustainable performance [11]. From the view of agency theory, outside directors tend to take their monitoring roles considering the interests of external shareholders, thereby mitigating agency conflicts [29]. Theoretically, outside directors may serve as effective monitors in the negotiations between the CEO and external shareholders [30]. In the U.S., financial economists have discovered a correlation between firm performance and board size or composition [31–33].

It is important for IPO firms to establish an independent board due to the asymmetry of information between the issuing firm and external investors. Previous literature, however, does not provide conclusive evidence of independent directors [34,35]. For IPO firms, it is essential to appoint an independent board in the board room to mitigate the information asymmetry between managers and outside shareholders. Fama and Jensen [29] point out that outside directors are objective and independent, and they have a greater incentive to perform their duties in the interests of shareholders, thereby reducing information asymmetry. Outside directors contribute significantly in aligning with the interests of shareholders by mitigating information asymmetry [36]. In contrast, inside executive directors facilitate the flow of information between management and the board of directors. Thus, the inside directors provide information to the board that independent directors have difficulty gathering [32,37,38].

We analyze whether internal control mechanisms can replace the monitoring role of independent directors in a bank-dominated corporate governance framework. In Japan, board independence is not associated with performance in mature firms [39]. Additionally, the committee system has not operated well in Japanese-listed firms [40]. Thus, we propose the following two contradictory hypotheses about the effectiveness of board independence in Japanese IPO firms.

**Hypothesis 1a.** Board independence mitigates the level of underpricing in IPO firms.

**Hypothesis 1b.** Board independence does not mitigate the level of underpricing in IPO firms.
The expertise of a board of directors is also important for IPO firms because its advisory role is crucial for firms with high complexity and uncertainty [32,33]. Since the SOX Act was established in the U.S., the expertise of the outside directors has been essential for decreasing agency conflicts [41–43]. Additionally, the expertise of board members is necessary for setting the final IPO offer price during book-building process. The board members’ expertise enhances the credibility of accounting information in the prospectus to underwriters and potential investors.

Our study focuses on three expertise areas: financial, legal, and accounting expertise. First, board members with financial expertise improve the disclosure quality of financial information [44,45]. Moreover, the quality of financial information is greatly enhanced in IPO firms managed by CEOs with financial expertise [46]. Second, we measure legal expertise in terms of the lawyers’ experience. Based on previous research related to the role of legal expertise of independent directors, we analyze the extent to which legal expertise mitigates underpricing [43]. Third, independent directors’ accounting expertise is associated with better-quality accounting information and internal control [44,47]. Additionally, the accounting expertise of the board of directors helps to mitigate information asymmetry in IPO firms, resulting in lower levels of underpricing in U.S. corporations [21]. Moreover, it enables effective internal governance mechanisms. Therefore, we propose the following hypothesis:

**Hypothesis 2a.** IPO underpricing is mitigated by independent board members’ financial expertise.

**Hypotheses 2b.** IPO underpricing is mitigated by independent board members’ legal expertise.

**Hypothesis 2c.** IPO underpricing is mitigated by independent board members’ accounting expertise.

Japanese corporate governance is known as a stakeholder-oriented corporate governance [8,9]. Agency theory predicts that the banks play a monitoring role for their client firms under stakeholder-oriented corporate governance in Japan [48,49]. Japanese corporate governance mechanisms have two features. First, bank ties through bank-affiliated directors are important in a country with a bank-based financial system, as the number of bankers on the board is greater [50]. Banks often appoint additional bankers to the board of directors in IPO firms [23]. Second, we discuss another prominent aspect of Japanese stakeholder-oriented corporate governance: the Japanese business group known as Keiretsu. Keiretsu, as a large diversified business group, faces the trade-off between visibility and complexity [28]. A high level of visibility is observed by the monitoring by central banks of Horizontal Keiretsu in a stakeholder-oriented corporate governance [51]. In contrast, the complexity of Keiretsu results from a concentrated ownership structure, such as cross-shareholdings. The IPO firms within Keiretsu face conflicts of interest between business groups and external investors [28]. In other words, IPO firms in Keiretsu face a trade-off between visibility and complexity. In Japan, information asymmetry problems, such as IPO underpricing, are likely to be mitigated in IPO firms belonging to Keiretsu [28]. Thus, Keiretsu plays a critical role in raising visibility in Japanese IPO firms.

The role of a bank-appointed director is also important in a stakeholder-oriented corporate governance model in Japanese corporations. The close ties between banks and their client firms can provide insight into private information that can affect managerial decisions, such as those related to investments, accounting conservatism, and the mitigation of corporate risk-taking in the client firms [22,52,53]. Additionally, the presence of bank-appointed auditors assists in increasing earnings quality in Japanese corporations [27]. Therefore, internal control mechanisms, such as bank-appointed board members, can serve as monitoring mechanisms. In particular, the central banks of Horizontal Keiretsu, such as Mitsubishi UFJ, Mizuho, and Sumitomo-Mitsui, have played an important role in monitoring since 2006 [24]. Therefore, we propose that directors who are appointed by the central banks of Horizontal Keiretsu will mitigate the level of underpricing in IPO firms:
Hypothesis 3. The directors appointed by mega-banks would mitigate the level of underpricing.

3. Data and Methodology

Keiretsu is expected to play a monitoring role in Japanese firms and contribute to sustainable growth. There is a possibility that transitions and regulatory changes might have affected the effectiveness of visibility in Japanese IPO firms. After the merger of the banking industry in the 1990s and early 2000s, the transition period of Keiretsu was characterized by financial deregulation. The central banks of Horizontal Keiretsu have been merged into three megabanks: Mitsubishi UFJ, Mizuho, and Sumitomo-Mitsui banking corporations [24,54]. Additionally, Japanese regulations have been changed to mandate that at least one independent director be appointed in publicly listed firms after 2011.

First, we selected sample companies from Japanese firms that went public on the three representative IPO markets in Japan, namely JASDAQ, MOTHERS, and HERCULES. IPO firms listed on Tokyo Stock exchanges and other exchanges are not included, as their listing standards differ from the three representative IPO markets [55,56]. Following TSE 33 industry classifications, our sample included 294 firms that went public in non-financial sectors during the period of 2009–2016. Subsidiary firms tend to go public following the IPO boom that established the major IPO markets [19,57].

During the period of 2009–2016, we gathered data on IPO firms across all the Japanese stock exchanges. Each IPO firm’s data include information about its board structure, ownership structure, type of venture capital (VC), and financial and stock performance. First, we obtained the financial and ownership structure data at the pre-IPO stage using Edinet to access the prospectus of each firm. Second, we obtained the board structure data from Corporate Governance reporting services provided by Nikkei and prospectus. Third, we obtained financial data at the post-IPO stage from the Astra Managers database maintained by Quick Corporations. Lastly, we obtained the stock return data from the NPM database provided by financial data solutions.

The sustainable performance and growth of corporations are the interest to managers and external shareholders [11]. Therefore, we regarded performance of firm as a proxy for the sustainability of the corporations. As for IPO firms, the performance was challenged by an anomaly known as underpricing [58]. As a firm contemplates going public, setting an appropriate offer price can be a tough process because underwriters face uncertainty and demand risks during the process [18]. Thus, the equity value the underwriter bought goes up on the first day of public trading, resulting in underpricing [59]. IPO underpricing is measured as the ratio of difference between the offering price and the closing price on the first trading day relative to the market return [57,60,61]. In line with previous studies, we adjusted each firm i’s underpricing, using Equation (1):

\[
\text{Market Adjusted Underpricing}_i = \left( \frac{\text{Closing Price}_i}{\text{Offering Price}_i} - 1 \right) - R_M \ldots (1)
\]

There are several independent variables that explain the cross-sectional variations in underpricing. Board characteristic variables are the board size [56] and board composition, which measure the proportion of outside directors in relation to total directors. The monitoring and supporting role of the VC provides a lower degree of underpricing [62,63]. Previous studies have examined the role of VC in Japan [55,57,64]. A dummy of three representative underwriters (Underwriter) was used to measure the underwriter reputation, including Nomura, Daiwa, and Nikko Securities [65]. Following previous studies [18,56,57,64], we adopted several control variables such as offer size, firm age, return on assets (ROA), CEO age, management ownership, and leverage. We also used industry dummies in conjunction with the TSE industry classifications (IT/communications, wholesale, retail, real estate, services, and other industries), since high-tech start-ups are considered high-risk firms [56]. We provide definitions and measurements of the variables in Appendix A (Table A1).
This investigation focuses on the research question of whether internal control mechanisms affect IPO underpricing. Our estimation methodology is ordinary least square (OLS) regressions [57]. Our models are expressed in Equation (2):

$$\text{Underpricing}_i = \beta_1 \text{Board Independence}_i + \beta_2 \text{Board Size}_i + \beta_3 \text{Mega}$$

We additionally analyze the effect of regulation change in 2014. Since 2014, the stewardship code has been introduced; it aimed to enhance the engagement of institutional shareholders. The roles of the board in balancing power with outside shareholders would be enhanced in the U.K. [66]. Thus, we expect the monitoring roles of board of directors to be stronger in the post period. To confirm this effect, we estimate it using the following Equation:

$$\text{Underpricing}_i = \beta_1 \text{Board Independence}_i + \beta_2 \text{Board Size}_i + \beta_3 \text{Mega}$$

4.1. Descriptive Statistics

The descriptive statistics and parson pairwise correlations are shown in Tables 1 and 2, respectively. We measure underpricing with both the market-adjusted return and the raw return. Table 1 shows that the average of underpricing is about 66.2%, which is higher than the average underpricing for IPOs during 2001–2007 [67]. The mean of board independence is about 10%, which is almost the same as in the listed companies [19]. The average of finance, legal, and accounting expertise (Finance Director, Law Director, and Accountant Director) occupy about 2.4%, 1.7%, and 0.9%, respectively, which is significantly less than that of the U.S. [21]. The average of the number of directors is about 5.3, which is considerably smaller than that of the U.S. [21]. The mean age of a firm is about 50 years. The average of the dummy variable of three underwriters (Underwriter) occupies about 67%, which is higher than that of the previous study. Furthermore, we identify the extreme value of Management ownership and Offer size. Regarding management ownership, the 5% to 95% percentile values are 3.410% and 85.700%, respectively. In this sense, several firms have extremely low or high managerial ownership structures. Additionally, the 5% and 95% values for the offer size are 19.705 and 22.594, respectively, indicating that the offer size variation is not as extremely skewed.

### Table 1. Descriptive statistics.

| Variables                  | Number | Mean   | Standard Deviation | Median  | 5%     | Q1     | Q3     | 95%   |
|----------------------------|--------|--------|--------------------|---------|--------|--------|--------|-------|
| Underprice                 | 294    | 0.666  | 0.560              | 0.576   | -0.128 | 0.164  | 1.294  | 3.123 |
| Board Independence         | 294    | 0.100  | 0.115              | 0.000   | 0.000  | 0.000  | 0.200  | 0.286 |
| Finance Director           | 294    | 0.024  | 0.072              | 0.000   | 0.000  | 0.000  | 0.000  | 0.200 |
| Law Director               | 294    | 0.016  | 0.056              | 0.000   | 0.000  | 0.000  | 0.000  | 0.200 |
| Accountant Director        | 294    | 0.009  | 0.046              | 0.000   | 0.000  | 0.000  | 0.000  | 0.000 |
| Mega-bank Director         | 294    | 0.003  | 0.025              | 0.000   | 0.000  | 0.000  | 0.000  | 0.000 |
| Board Size                 | 294    | 5.316  | 1.487              | 5.000   | 3.000  | 4.000  | 6.000  | 8.000 |
| Offer Size                 | 294    | 20.830 | 0.868              | 20.684  | 19.705 | 20.201 | 21.296 | 22.594|
| Firm Age                   | 294    | 2.471  | 0.720              | 2.398   | 2.186  | 2.079  | 2.833  | 3.607 |
| D Rank                     | 294    | 0.667  | 0.472              | 1.000   | 0.000  | 0.000  | 1.000  | 1.000 |
| ROA                        | 294    | 0.069  | 0.124              | 0.064   | -0.048 | 0.034  | 0.113  | 0.199 |
| VC                         | 294    | 0.639  | 0.481              | 1.000   | 0.000  | 0.000  | 1.000  | 1.000 |
| Management Ownership       | 294    | 43.716 | 25.146             | 43.900  | 34.110 | 23.130 | 60.720 | 85.700|
| CEO Age                    | 294    | 3.879  | 0.216              | 3.871   | 3.526  | 3.714  | 4.043  | 4.234 |
| Leverage                   | 294    | 1.760  | 2.621              | 1.115   | 0.181  | 0.466  | 2.219  | 5.909 |
| Sales                      | 294    | 7.581  | 1.241              | 7.607   | 5.576  | 6.798  | 8.495  | 9.323 |
| Tokyo Dummy                | 294    | 0.673  | 0.470              | 1.000   | 0.000  | 0.000  | 1.000  | 1.000 |
| Firm Age (Year, raw data)  | 294    | 15.476 | 12.907             | 11.000  | 4.000  | 8.000  | 17.000 | 45.000|
| CEO Age (Year, raw data)   | 294    | 49.507 | 10.662             | 48.000  | 34.000 | 41.000 | 57.000 | 69.000|
| Sales (Million Yen, raw data) | 293 | 4066.3 | 7912.0             | 2013.0  | 264.0  | 896.0  | 4889.0 | 11198.0|
Table 2. Correlation matrix.

| Variable                | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) | (14) |
|-------------------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|------|------|------|------|------|
| Underprice              | 0.04|     |     |     |     |     |     |     |     |      |      |      |      |      |
| Board Independence      | 0.04| 0.13|     |     |     |     |     |     |     |      |      |      |      |      |
| Finance Director        | −0.03| 0.30| −0.02|     |     |     |     |     |     |      |      |      |      |      |
| Law Director            | −0.09| 0.24| −0.04|     |     |     |     |     |     |      |      |      |      |      |
| Accountant Director     | −0.07| 0.12| 0.32| −0.03| −0.02|     |     |     |     |      |      |      |      |      |
| Mega-bank Director      | −0.14| −0.01| −0.03| −0.08| 0.06| −0.05|     |     |     |      |      |      |      |      |
| Offer Size              | −0.37| 0.13| 0.01| 0.03| 0.00| 0.00| 0.07|     |     |      |      |      |      |      |
| Firm Age                | −0.04| −0.07| −0.08| −0.03| 0.07| −0.01| 0.22| −0.29|      |      |      |      |      |      |
| Underwriter             | 0.05| 0.10| 0.02| −0.03| 0.03| 0.03| 0.17| −0.10|      |      |      |      |      |      |
| ROA                     | 0.10| 0.15| 0.02| 0.03| 0.03| −0.20| −0.02| −0.11| 0.01|      |      |      |      |      |
| VC                      | 0.04| −0.05| 0.09| −0.01| −0.08| −0.04| −0.11| 0.02| −0.22| 0.01|      |      |      | −0.11|
| Management              | 0.14| 0.02| −0.07| 0.04| 0.01| 0.14| −0.21| −0.15| −0.02| −0.06| 0.22|      |      |      |
| CEO Age                 | −0.17| −0.24| −0.06| −0.11| −0.01| −0.04| 0.24| −0.12| 0.41| −0.12| −0.16| −0.09|      | −0.26|
| Leverage                | −0.07| −0.15| −0.05| −0.03| 0.09| 0.00| 0.18| −0.27| 0.17| −0.08| −0.31| −0.07| −0.01| 0.13|      |

*Note.* Number = 294. *p < 0.05.*
4.2. Estimated Results

Table 3 presents the regression results of the association between Underpricing and board composition in IPO firms. First, we find that board independence does not mitigate Underpricing for any of the four models, which is consistent with Hypothesis 1b. The interaction term between board independence and a dummy of the post period (Post Period) is significantly negative at the 10% level in model (4). This might be a sign that the corporate governance reforms would gradually change the internal control in IPO firms. Considering other control variables, the Board size has no impact on IPO underpricing. The Offer size has a significant negative relationship with Underpricing, which is consistent with previous studies [55,65]. Moreover, CEO age is significantly negative to IPO underpricing, implying that older CEOs are more highly valued because of their greater business experiences [18]. Finally, LEVERAGE has a significantly negative effect on IPO underpricing, as firms with higher leverage act as positive signals to investors [68].

Table 3. OLS estimated results.

|                | (1)  | (2)  | (3)  | (4)  |
|----------------|------|------|------|------|
|                | Underpricing | Underpricing | Underpricing | Underpricing |
| Board Independence | 0.168 | 0.091 | 0.670 | 0.945 |
| (0.65)         | (0.34) | (1.27) | (1.73) | + |
| Board Independence * Post Period | −0.653 | (−1.09) | −1.107 | + |
| Board Size | 0.010 | 0.015 | 0.011 | 0.018 |
| (0.53) | (0.73) | (0.63) | (0.87) | |
| Offer Size | −0.315 | −0.332 | −0.316 | −0.333 |
| (−9.43) | (−9.87) | (−9.47) | (−9.89) | |
| Firm Age | −0.040 | −0.065 | −0.037 | −0.059 |
| (−1.00) | (−1.51) | (−0.94) | (−1.39) | |
| Underwriter | 0.113 * | 0.109 | + | 0.111 * | 0.107 + |
| (2.15) | (1.88) | (2.12) | (1.85) | |
| ROA | −0.215 | −0.012 | −0.219 | −0.021 |
| (−9.43) | (−0.05) | (−1.01) | (−0.08) | |
| VC | −0.047 | −0.031 | −0.051 | −0.037 |
| (−0.87) | (−0.51) | (−0.95) | (−0.61) | |
| Management Ownership | 0.001 | 0.001 | 0.001 | 0.001 |
| (1.05) | (0.65) | (1.17) | (0.83) | |
| CEO Age | −0.325 | −0.398 | −0.339 | −0.403 ** |
| (−2.36) | (−2.58) | (−2.37) | (−2.61) | ** |
| Leverage | −0.022 | −0.039 | −0.023 | −0.040 ** |
| (−2.39) | (−3.10) | (−2.50) | (−3.25) | ** |
| Constant | 8.336 ** | 9.105 ** | 8.392 ** | 9.165 ** |
| (8.35) | (9.30) | (8.36) | (9.31) | |

Note. Models 1, 2, 3, and 4 are estimated using linear regression. All regression estimates are heteroscedastic-consistent standard errors; t-statistics in parentheses. See Appendix A (Table A1) for definitions and measurements of the variables. + p < 0.10, * p < 0.05, ** p < 0.01.

Table 4 presents the regression results of the association between Underpricing and the characteristics and expertise of the board of directors in IPO firms. Based on this table, we conclude that neither Finance Director nor Law Director is significant to Underpricing. Thus, we cannot confirm Hypothesis 2a or 2b. In accordance with Hypothesis 2c, we find that Accountant Director is significantly negatively correlated with Underpricing. This result is consistent with the U.S. evidence [21], and we interpret it as showing that the accounting expertise plays a vital role in mitigating uncertainties and complexities associated with the IPO process. Table 3 displays similar results.
Table 4. OLS estimated results (2).

|                           | (1)     | (2)     | (3)     | (4)     | (5)     |
|---------------------------|---------|---------|---------|---------|---------|
| Underprice                |         |         |         |         |         |
| Board Independence        | 0.167   | 0.171   | 0.259   | 0.200   | 0.309   |
|                          | (0.66)  | (0.64)  | (0.98)  | (0.77)  | (1.14)  |
| Finance Director          | 0.013   | 0.013   | 0.162   |         |         |
|                          | (0.04)  | (0.04)  | (0.48)  |         |         |
| Law Director              | −0.021  | −0.021  | −0.137  |         |         |
|                          | (−0.05) | (−0.05) | (−1.14) |         |         |
| Accountant Director       | −0.021  | −0.021  | −0.137  |         |         |
|                          | (−0.05) | (−0.05) | (−1.14) |         |         |
| Mega-bank Director        | −0.842  | −0.842  | −0.880  |         |         |
|                          | (−2.04) | (−2.04) | (−4.16) |         |         |
| Board Size                | 0.010   | 0.009   | 0.010   |         |         |
|                          | (0.53)  | (0.53)  | (0.47)  |         |         |
| Offer Size                | −0.315  | −0.315  | −0.315  |         |         |
|                          | (−9.41) | (−9.41) | (−9.41) |         |         |
| Firm Age                  | −0.040  | −0.040  | −0.040  |         |         |
|                          | (−1.00) | (−1.00) | (−0.94) |         |         |
| Underwriter               | 0.113   | 0.113   | 0.110   |         |         |
|                          | (2.14)  | (2.14)  | (2.27)  |         |         |
| ROA                       | −0.216  | −0.216  | −0.201  |         |         |
|                          | (−1.00) | (−1.00) | (−1.02) |         |         |
| Management                | 0.001   | 0.001   | 0.001   |         |         |
|                          | (1.05)  | (1.05)  | (1.23)  |         |         |
| CEO Age                   | −0.334  | −0.334  | −0.333  |         |         |
|                          | (−2.35) | (−2.35) | (−2.28) |         |         |
| Leverage                  | −0.022  | −0.022  | −0.020  |         |         |
|                          | (−2.39) | (−2.39) | (−2.34) |         |         |
| Constant                  | 8.334   | 8.336   | 8.310   |         |         |
|                          | (8.29)  | (8.33)  | (8.32)  |         |         |
| Industry                  | Yes     | Yes     | Yes     | Yes     | Yes     |
| Number                    | 294     | 294     | 294     | 294     | 294     |
| Adjusted R²               | 0.447   | 0.447   | 0.452   | 0.452   | 0.451   |
| F                         | 22.39   | 22.38   | 23.10   | 23.85   | 21.95   |

Note. Models 1, 2, 3, 4, and 5 are estimated using linear regression. All regression estimates are heteroscedasticity-consistent standard errors; t-statistics in parentheses. See Appendix A (Table A1) for definitions and measurements of the variables. * p < 0.05, ** p < 0.01.

Table 5 presents the regression results of the relationship between Underpricing and bank-affiliated directors in IPO firms. According to this table, we find that board independence and the interaction terms between board independence and post period do not have a significant impact on Underpricing, which supports Hypothesis 1b. As for the role of expertise of outside directors, we find a significant and negative result for Accountant Directors in models (3) and (5). We confirm the same result for U.S. directors [21]. The results show that the megabank director is significantly negatively correlated with Underpricing in models (4) and (5). This implies that directors affiliated with the megabank Keiretsu would be helpful in mitigating the uncertainties associated with IPO firms, which is consistent with Hypothesis 3. Effective monitoring roles of central banks were also present in IPO firms.

Table 5 presents the regression results of the relationship between Underpricing and bank-affiliated directors in IPO firms. According to this table, we find that board independence and the interaction terms between board independence and the post period do not have a significant impact on Underpricing.

Finally, all our results are robustly confirmed after considering the heteroscedasticity of the error terms. Additionally, we cluster the standard errors at the firm level and gain similar results. Furthermore, we check that the VIFs of all independent variables are less than 10.

4.3. Robustness of the Results

To provide identify better results, we used several methods to tackle potential endogeneity problems. We adopted propensity score matching (PSM) methods to control for confounding factors on the dependent variables. A previous study has shown that the VC
shareholdings enhance the degree of underpricing of IPO firms in Japan [69]. First, we estimated the conditional probability of VC-backed firms using a logistic regression model. We adopted VC as the dependent variable and the total sales (Sale) and Tokyo dummy (Tokyo) as two independent variables. Sale is defined as the logarithm of the total sales of IPO firms. Tokyo is defined as a dummy variable that equals 1 if the headquarter is located in Tokyo; otherwise, it equals zero. Subsequently, we match VC-backed firms (VC = 1) to firms that were not VC-backed (VC = 0), using a one-to-one matching method.

Table 5. OLS estimated results (3).

|                  | (1)  | (2)  | (3)  | (4)  | (5)  |
|------------------|------|------|------|------|------|
| Underprice       | 0.669| 0.669| 0.850| 0.673| 0.853|
| (1.28)           | (1.27)| (1.55)| (1.27)| (1.56)|     |
| Board Independence| -0.653| -0.660| -0.758| -0.617| -0.713|
| (1.09)           | (1.09)| (1.02)| (1.02)| (1.15)|     |
| Finance Director | 0.020|      |      |      | 0.163|
| (0.06)           |      |      |      | (0.49)|     |
| Law Director     | 0.045|      |      |      |      |
| (0.10)           |      |      |      |      |      |
| Accountant Director| -0.917|      |      | -0.943|      |
|                  | (2.35)|      |      | (2.39)|      |
| Mega-bank Director| -1.442|      |      | -1.676|      |
|                  | (4.05)|      |      | (3.37)|      |
| Board Size       | 0.011| 0.012| 0.012| 0.010| 0.011|
| (0.63)           | (0.68)| (0.56)| (0.60)|     |      |
| Offer Size       | -0.316| -0.316| -0.316| -0.315| -0.314|
| (9.42)           | (9.42)| (9.39)| (9.23)|     |      |
| Firm Age         | -0.037| -0.037| -0.034| -0.038| -0.033|
| (0.93)           | (0.94)| (0.95)| (0.82)|     |      |
| Underwriter      | 0.111|      | 0.110|      | 0.113|
| (2.10)           | (2.11)| (2.21)| (2.24)| (2.15)|     |
| ROA              | -0.219| -0.218| -0.204| -0.222| -0.210|
| (1.01)           | (1.01)| (1.03)| (1.03)|     |      |
| VC               | -0.052| -0.052| -0.056| -0.048| -0.053|
| (0.94)           | (0.94)| (0.93)| (0.88)|     |      |
| Management       | 0.001| 0.001| 0.001| 0.002| 0.002|
| Ownership        | (1.17)| (1.17)| (1.19)| (1.34)| (1.40)|
| CEO Age          | -0.339| -0.339| -0.337| -0.328| -0.324|
| (2.36)           | (2.37)| (2.35)| (2.29)|     |      |
| Leverage         | -0.023| -0.023| -0.021| -0.023| -0.021|
| (2.50)           | (2.50)| (2.32)| (2.45)|     |      |
| Constant         | 8.389| ** 8.393| ** 8.373| ** 8.327| ** 8.268|
|                  | (8.31)| (8.35)| (8.25)| (8.14)|     |

Note. Models 1, 2, 3, 4, and 5 are estimated using linear regression. All regression estimates are heteroscedastic-consistent standard errors; t-statistics in parentheses. See Appendix A (Table A1) for definitions and measurements of the variables. * p < 0.05, ** p < 0.01.

The PSM results are summarized in Table 6. We first find that the results of the logit model that derive the PSM are shown in model (1). The estimated results of model (1) indicate that VC-backed firms tend to have a smaller sale size than firms that are not VC-backed. Next, we show the results of PSM in models (2), (3), (4), (5), and (6). Using these five models, we find that Independence is not significantly negative, consistent with Hypothesis 1b. Additionally, Accountant Director is significantly negative for Underpricing, which is consistent with Hypothesis 2c. We also find that Mega-bank director is significantly negative for Underpricing, which is consistent with Hypothesis 3. Therefore, we confirm that these results support the robustness of our empirical results.

We also investigated the additional estimations to confirm the robustness of our results. We implemented the estimation to exclude samples with overpricing (i.e., Underprice < 0). After that, we confirmed similar results. We additionally analyzed the estimation in order to winsorize the outlier samples of Underpricing and the expertise of the board. We winsorized underpricing, finance director, law director, accountant director, and mega-bank director at the 1st and 99th percentiles. Thus, the robustness of our results is confirmed.
### Table 6. OLS estimated results.

|                | (1)     | (2)     | (3)     | (4)     | (5)     | (6)     |
|----------------|---------|---------|---------|---------|---------|---------|
|                | VC Underprice |         |         |         |         |         |
|                | VC       | Underprice |         |         |         |         |
| Board Independence | 0.503   | 0.511   | 0.704   | 0.532   | 0.716   |         |
|                | (0.85)  | (0.86)  | (1.14)  | (0.89)  | (1.16)  |         |
| Board Independence | −0.251  | −0.279  | −0.380  | −0.211  | −0.329  |         |
|                | (−0.38) | (−0.42) | (−0.57) | (−0.32) | (−0.48) |         |
| Finance Director | 0.062   |          | 0.816   |          |         |         |
|                | (0.13)  |          | (0.82)  |          |         |         |
| Law Director    | 0.140   |          | 0.102   |          |         |         |
|                | (0.23)  |          | (0.18)  |          |         |         |
| Accountant Director | −0.899 ** |         | −0.928 ** |         |         |         |
|                | (−3.01) |          | (−3.14) |          |         |         |
| Mega-bank Director |        |         |         |         |         |         |
|                |        |         | −1.861 ** |         |         |         |
|                |        |         | (−4.47) |         |         |         |
| Board Size      | 0.002   | 0.003   | 0.002   | −0.002  | −0.002  |         |
|                | (0.12)  | (0.14)  | (0.09)  | (−0.08) | (−0.11) |         |
| Offer Size      | −0.320 ** | −0.320 ** | −0.320 ** | −0.316 ** | −0.315 ** |         |
|                | (−2.78) | (−2.76) | (−7.62) | (−7.46) |         |         |
| Firm Age        | −0.074  | −0.075  | −0.067  | −0.072  | −0.061  |         |
|                | (−1.57) | (−1.57) | (−1.52) | (−1.27) |         |         |
| D Rank          | 0.102   | 0.104   | 0.108   | 0.119   | +0.117  | +        |
|                | (1.49)  | (1.54)  | (1.72)  | (1.68)  |         |         |
| ROA             | 0.004   | 0.009   | 0.006   | −0.024  | −0.030  |         |
|                | (0.02)  | (0.03)  | (0.02)  | (−0.09) | (−0.11) |         |
| VC              | −0.064  | −0.065  | −0.068  | −0.064  | −0.074  |         |
|                | (−1.05) | (−0.98) | (−1.05) | (−1.11) |         |         |
| Management      | 0.000   | 0.000   | 0.000   | 0.000   | 0.000   |         |
| Ownership       | (−0.11) | (−0.11) | (−0.15) | (0.18)  | (0.18)  |         |
| CEO Age         | −0.297  | −0.296  | −0.278  | −0.286  | −0.274  |         |
|                | (−1.63) | (−1.60) | (−1.53) | (−1.55) | (−1.52) |         |
| Leverage        | −0.019  | + −0.019 | + −0.018 | + −0.019 | + −0.017 | +        |
|                | (−1.88) | (−1.89) | (−1.76) | (−1.83) | (−1.68) |         |
| Sales           | −0.429 ** |         |         |         |         |         |
|                | (−3.28) |          |          |          |          |         |
| Tokyo Dummy     | 3.282   | 8.451 ** | 8.461 ** | 8.358 ** | 8.343 ** | 8.230 ** |
|                | (2.83)  | (6.25)  | (6.22)  | (6.16)  | (6.11)  | (6.05)  |
| Constant        |        |         |         |         |         |         |
| Industry        | Yes     | Yes     | Yes     | Yes     | Yes     | Yes     |
| Year            | Yes     | Yes     | Yes     | Yes     | Yes     | Yes     |
| Number          | 293     | 257     | 257     | 257     | 257     | 257     |
| Adjusted R²     | 0.508   | 0.508   | 0.514   | 0.517   | 0.520   |         |
| Pseudo-R²       | 0.113   | 0.171 ** | 0.174 ** | 0.181 ** | 0.192 ** | 0.179 ** |
| F               |        |         |         |         |         |         |
| Chi²            | 43.16   | **      |         |         |         |         |

Note: Model 1 is estimated using a logit model. Models 2, 3, 4, 5, and 6 are estimated using linear regression. All regression estimates are heteroscedasticity-consistent standard errors; t-statistics in parentheses. See Appendix A (Table A1) for definitions and measurements of the variables. + p < 0.10, * p < 0.05, ** p < 0.01.

### 5. Conclusions

This study investigates how the board of directors mitigates underpricing of IPOs in a stakeholder-oriented governance during 2009–2016. We examined the three representative IPO markets in Japan, namely JASDAQ, MOTHERS, and HERCULES. First, we found that independent directors struggle to mitigate the degree of Underpricing in IPO firms. Accordingly, our results can be interpreted as showing that the independence of board members is ineffective in mitigating IPO underpricing, in contrast to countries with a market-based financial system [16].

Second, the expertise of Accountant Directors in IPO firms is significantly negative in relation to Underpricing. This finding is consistent with U.S. findings that expertise in Accounting mitigates IPO underpricing [21]. Finally, Mega-bank-appointed directors also mitigate IPO underpricing. This indicates that bank-monitoring through Horizontal Keiretsu is effective [24,25,27]. Therefore, monitoring roles played by banks mitigate agency problems in IPO firms [25].

Our study makes several contributions to the existing literature. First, our findings show that the independence of boards is not necessarily an effective monitoring mechanism in IPO firms under stakeholder-oriented corporate governance. Accordingly, our findings suggest that Japanese firms can use committee systems or independent directors as a fashionable “label” [40]. Second, we show that directors with accounting expertise provide effective monitoring roles to mitigate information asymmetry in IPO firms as in...
Finally, the effective monitoring roles of bank-appointed directors in Japanese corporations [27] could help mitigate information asymmetry in IPO firms after the merger of central banks in Horizontal Keiretsu groups [24] under stakeholder-oriented corporate governance. This implies that the bank-monitoring role within Keiretsu [28] has remained effective since the merger of Horizontal Keiretsu. Overall, the effectiveness of bank monitoring is important to ensure the sustainability of IPO firms in a stakeholder-oriented corporate governance framework.

There are certain limitations to this study. First, it does not analyze the effects of the corporate governance code that required publicly listed firms to appoint independent directors since 2015. It is possible that the role of independent directors may change following the introduction of the corporate governance code. Second, the listing markets of the TSE are being reformed to strengthen corporate governance reforms after 2022 [70]. There is a possibility that the role of independent directors in IPO firms may be enhanced as a result of the TSE reform. Finally, it is important to examine the relationship between sustainable corporations and stakeholder-oriented corporate governance [9]. In this study, we focus on IPO firms under a stakeholder-oriented corporate governance framework. It is expected that future empirical studies will analyze several aspects of corporate governance in sustainable corporations. Such studies are helpful to determine the impact of sustainable corporations on society.

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Appendix A

Table A1. Variable Definition.

| Variables          | Definition                                                                 |
|--------------------|---------------------------------------------------------------------------|
| Underprice         | (First day Price–Offer Price)/Offer Price—Index Return [57]               |
| Board Independence | The number of independent directors/The number of directors               |
| Finance Director   | The number of directors from Financial Institutions/The number of directors|
| Law Director       | The number of directors from Lawyers/The number of directors              |
| Accountant Director| The number of directors from Accounts/The number of directors             |
| Megabank Director  | The number of directors from Megabank/The number of directors             |
| Board Size         | The number of directors [56]                                              |
| Offer Size         | Logarithm of offer size [55]                                              |
| Firm Age           | The age in years since the firm’s establishment [57]                      |
| Underwriter        | A dummy variable equals 1 if the underwriter is among three underwriters (Nomura, Daiwa, and Nikko Securities); otherwise it equals 0. [57] |
| ROA                | ROA (IPO) [64]                                                            |
| VC                 | A dummy variable equals 1 if any venture capital (VC) is on the list of top 10 shareholders; otherwise, it equals 0. [57] |
| Management Ownership| Management Ownership (%) [11,18]                                          |
| CEO Age            | Logarithm of CEO Age [18]                                                 |
| Leverage           | Debt/Net Asset [57]                                                       |
| Post Period        | A dummy variable that equals 1 when a firm goes to public after 2014; otherwise, it equals 0. |
| Sales              | Logarithm of sales                                                        |
| Tokyo Dummy        | A dummy variable that equals 1 if a head office of a firm is located in Tokyo; otherwise, it equals 0. |
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