Abstract

Chief financial officers (CFOs) are considered the financial stewards of their companies and arguably second in importance only to the Chief Executive Officer (CEO) in corporate hierarchies. Despite the importance of the CFO position, at least in U.S. firms, very little attention in academia has been paid to the role a CFO plays in corporate finance, especially in Japan. In fact, the appointment or the use of the title CFO is a relatively recent phenomena in Japan where 10% of the listed firms in Japan have their CFOs in 2021 compared 2.5% in 2004. Drawing on the theoretical lens of institutional logics, this paper seeks to empirically examine determinants and effects of the CFOs in Japanese listed firms. We use the financial data and annual reports of the listed firms from 2017 and 2021 for logit regression and the generalized method of moments (GMM) analyses. Our empirical analysis reveals that a firm with CFOs tends to have more independent directors on the board, younger board directors, disclose their materials in English, and less reliance on the cross-shareholding and main bank shareholding. These features are in line with the code of practice of the corporate governance regulations in Japan. We also find that the presence of CFOs has positive impact on Tobin's Q and annual share return but no effect on ROA and ROE. All in all, the features of the firms with CFOs are in line with the code of practice of the corporate governance regulations in Japan, leading to the potential reward of a firm's share price appreciation.