

Preface

Japan's corporate governance structure has changed greatly since the second half of the 1990s. Institutional reform involving enterprise law, such as the introduction of a stock option and removal of the ban on holding companies, served as background. In this brief, the author uses microdata on listed companies in an empirical study of how the new trends in corporate management in Japan, such as the introduction of a stock option and the evolution of corporate diversification and division of corporations, influence corporate behaviors and performance. The main findings of a stock option analysis show that the introduction of a stock option had neither a positive impact upon profitability nor a negative side effect of promoting risk-taking behaviors. The results of an empirical analysis of corporate diversification and division of corporations show their negative impacts upon profitability. However, their negative magnitude is not dependent upon the degree of corporate diversification or division of corporations. This finding suggests that weak corporate governance is not the key problem but that Japanese firms' managerial strategy may be unsophisticated or Japanese corporate diversification and division of corporations might aim at attaining goals such as future firm development, ensuring market share, welfare improvement for firm employees, and job preservation.

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Corporate Governance and Corporate Behavior in Japan
The Consequences of Stock Options and Corporate
Diversification

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2016, XI, 88 p. 7 illus., 5 illus. in color., Softcover

ISBN: 978-4-431-56004-3