

REFORMING JAPANESE CORPORATE GOVERNANCE

A THESIS

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Abstract

The objective of this thesis is to suggest how Japan should reform its corporate governance system based on the concern that the Japan's current monitoring mechanism allows corporate managers to neglect returns on equity in favor of maximizing the other kinds of benefits accruing from relationship within the corporate group, so-called *kigyoshudan*, that is becoming increasingly problematic due to the changes both in the Japanese and the global economy.

This thesis attempts to answer whether introducing U.S.-style institutional investor activism in Japan is desirable for Japanese corporate governance, which forms of activism are useful in the Japanese corporate structure, considering particular problems with existing monitoring mechanism and if institutional-investor activism cannot effectively monitor corporate management, what reforms would establish an effective monitoring mechanism. This thesis concludes that fostering U.S.-style institutional activism in Japan would likely to duplicate rather than remove the conflict of interest between corporate group members and outside shareholders. It argues rather that the development of Japan's capital market so as to generates more new market participants is necessary for the effective institutional reform of Japanese corporate governance. It proposes that in order to establish a viable capital market, reform efforts should be focused on deregulation aimed at removing the constraints that have discouraged potential outside investors from entering the Japanese capital market. It propose the reform should also be directed toward tightening loose corporate financial disclosure requirements and toward establishing the rigorous and formal enforcement of such requirements so as to provide a transparent, increasingly fair and, to outside or new investors, attractive capital market.

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