Executive Compensation and Firm Performance in Japan: The Role of Bank-appointed Monitors

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This paper examines the relations between role of bank-appointed monitors and pay-performance sensitivity in Japan. Previous studies show that pay-performance sensitivity is positive and almost same as the market-oriented system like US. However, under Japanese bank-oriented system, pay-performance sensitivity are expected to be controlled by bank-appointed monitors. Our findings in this paper are summarized as follows. First, pay-performance relations are significantly positive for 1990s. Second, the discipline mechanism of bank-appointed monitors are not well functioned in Japan for 1990s. Finally, there are differences of pay-performance relations between recessionary and recovery period and bank directors help to decrease the pay-performance sensitivity in a recessionary period and to enhance the pay-performance sensitivity is effective for loss profit only in a recovery period.

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