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Journal of Financial Economics

Volume 36, Issue 2, October 1994, Pages 225-258

Appointments of outsiders to Japanese boards: Determinants and implications for managers

Steven N. Kaplan ^a ... Bernadette A. Minton ^b

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[https://doi.org/10.1016/0304-405X\(94\)90025-6](https://doi.org/10.1016/0304-405X(94)90025-6)

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Abstract

This paper investigates the determinants of appointments of outsiders “directors previously employed by banks (bank directors) or by other nonfinancial firms (corporate directors) to the boards of large nonfinancial Japanese corporations. Such appointments increase with poor stock performance; those of bank directors also increase with earnings losses. Turnover of incumbent top executives increases substantially in the year of both types of outside appointments. We perform a similar analysis for outside appointments in large U.S. firms and find different patterns. We conclude that banks and corporate shareholders play an important monitoring and disciplinary role in Japan.





Keywords

Corporate governance; Boards of directors; Relationship investing

JEL classification

G32; G21; D23

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