

# SOX: Impact of the Legal System on Corporate Activities

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RIETI International Seminar 2008.6.25.

# Firm as an Incentive Mechanism

- 4 players:
  - Shareholders, Creditors, Employees, & Management
- 2 different types of capital
  - Monetary capital & Human capital
- Each player must motivate other players to provide their capital in order to maximize its own interest.
- Bargaining must always be made via management.

# Importance of Law

- “Enterprise Law” is an important infrastructure of the incentive bargain of the firm
- How each part of the enterprise law affects the incentives of each player
  - The relative bargaining power of each bilateral relationship
  - The risk each player bears
- How each part of the enterprise law is interrelated
- SOX is an excellent example of the enterprise law

