

**Employees and Corporate Finance :
Analyses of Corporate Pensions and Employee Stock Op-
tions**

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Abstract

The main players in corporate finance problems are usually stockholders, creditors and managers. However employees also play an important role as contributors of funding to their corporations through corporate pensions, and are involved in the financial performance of their companies when they receive employee stock options. Recently the Japanese press has been reporting the shortage of funding for corporate pensions and the resulting financial vulnerability of the corporations. Meanwhile many Japanese corporations have started to vest executives and lower level employees with stock options to motivate them to increase their firms' stock price and performance. So, these two topics, corporate pension plans and stock options, are now developing into hot debate issues in the business community and among academics in Japan. In this paper we examine the characteristics of corporate pensions and employee stock options and their effects on corporate behavior, particularly on investment and financing decisions. We also discuss their incentive effects on employees, and risk sharing problems that arise between employees and the corporations.