Ownership Structure and Corporate Governance in Japan

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論　文　内　容　の　要　旨
Thesis Summary

This study examines corporate governance of Japanese firms following alteration in their ownership structure. Ownership concentration is a key variable in corporate governance and previous literature shows two facets of large shareholders. While large shareholders oversee management and address opportunistic behavior (Jensen and Meckling, 1976), evidence suggests that they expropriate minority shareholders' wealth (Schleifer and Vishny, 1997; Claessens et al., 2002). Building upon the latter perspective, we aim to explore how shifts in ownership structure affect corporate governance practices of Japanese firms.

We examine Japanese firms that exhibited concentrated ownership structures (Prowse, 1992), cross-shareholdings centered around main banks (Morck et al., 2000, Aoki & Patrick, 1995), insider dominated boards (Basu et al., 2007), and practices such as the seniority system and lifelong employment (Kato, 2000). The trajectory of ownership structure and governance practices in Japan has been significantly influenced by various emblematic events since the 1990s. The economic downturn triggered by excessive assets and non-performing bank loans along with the implementation of stricter regulations and corporate governance reforms, compelled companies to gradually dissolve cross-shareholdings and sever main bank relationships. Against this backdrop of substantial shifts, Japanese data provide us with an appropriate setting to examine the implication of a change in ownership concentration on corporate governance. Consequently, this thesis is motivated to address the following key research questions: (1) Does expropriation of minority shareholders diminish following the exit of large shareholders? (2) how are internal labor management mechanisms sustained after a change in ownership structure? (3) Do entities which embrace conflicts of interests between controlling and minority shareholders persist in the aftermath of governance reforms? How are such problematic entities established?

In Chapter 1, a comprehensive review of the theory and existing literature on ownership concentration and the role of large shareholders in corporate governance is conducted. The focus is on examining the evolving environmental characteristics that have prompted Japanese firms to reassess their perspectives regarding shareholders and ownership. Within this context, particular attention is given to the review of underlying factors associated with ownership structure, encompassing areas such as secondary equity offerings, poison pill provisions, and initial public offering (IPO) divestitures, such as equity carve-outs and spin-offs.

Chapter 2 examines pure secondary offerings by which large shareholders exit their positions.

Thus far, previous studies have primarily focused on analyzing stock price reactions following the transaction, highlighting a negative stock performance. We analyze secondary offerings as a potential event leading to a decrease in a registrant firm's ownership concentration, thereby potentially mitigating expropriation problems associated with large shareholders. Through our empirical analysis, we find that registrant firms significantly increase payouts, mainly driven by an increase in dividends, and Tobin's Q after the sale, while the ownership structure becomes less concentrated. Although the announcement of secondary offerings is accompanied by a negative stock price reaction in the short term, we observe a subsequent reversal and a positive long-term stock performance. These findings suggest that secondary offerings decrease expropriation of minority shareholder wealth and promote firms to safeguard minority shareholder interests by increasing cash distributions to shareholders.

Chapter 3 investigates the causes and consequences of poison pill adoptions by firms hosting in-house tournaments. In a number of events, the exit of large shareholders via secondary offerings translated into unwinding of cross-shareholdings, which in turn left firms more susceptible to hostile takeovers. A strand of literature highlights two perspectives behind poison pills provisions. The management entrenchment (Ryngaert, 1988; Malatesta and Walkling, 1988) and the shareholder interest hypotheses (Comment and Schwert, 1995; Heron and lie, 2006; Heron and lie, 2015). Our findings align with the latter and provide evidence of firms adopting the pill to preserve in-house tournaments. The embedded "seniority system" and "lifelong employment" in the Japanese corporate culture allow us to introduce a novel tournament structure modelled around the length of employment of top managers before winning the tournament prize. We reveal that firms implementing poison pills tend to have incumbent presidents with long tenure at appointment, indicating the existence of in-house tournaments. Importantly, we find positive stock price reaction and an increase in Tobin's Q following the adoption of the pill for firms hosting such tournaments.

Chapter 4 focuses on problematic entities creating listed subsidiaries embracing conflict of interest between controlling and minority shareholders. Despite the unwinding of cross-shareholdings, as well as the implementation of more rigorous regulations and corporate governance reforms by the Japanese government, a number of problematic entities under concentrated ownership structures continue to exist. Our empirical analysis shows evidence that presidents staying in their role for a long time under the concentrated ownership structure engage in inefficient divestitures in the form of equity carve-outs and spin-offs, allowing them to retain certain control rights of the divested units. Additionally, we present evidence demonstrating that large shareholders yet prevent this opportunistic behavior when they have large cash flow rights.

Chapter 5 concludes the dissertation. This dissertation contributes to the literature in many ways. By investigating Japanese firms throughout economic events that impact ownership structures, we shed light on the positive effects behind secondary equity offerings, which lead to a decrease in ownership concentration and prompt firms to adopt governance mechanisms aimed at safeguarding the wealth of minority shareholders. Furthermore, we introduce novel benefits associated with poison pill provisions by firms maintaining labor management mechanisms in the form of in-house tournaments. In doing so, we extend on the shareholder interest hypothesis and present a fresh perspective centered on promotion practices and investments in human resources. Lastly, this research provides noteworthy contributions to the corporate governance literature by highlighting the entities, that may cause expropriation problems, are created by managers who pursue private benefits, especially when a controlling shareholder allows their prolonged tenure in the position.