Foreign Investor Activism in Japan: The First Ten Years*

Yasushi Hamao, University of Southern California
Kenji Kutsuna, Kobe University
Pedro Matos, University of Southern California

This Version: June 1, 2010

Abstract:

This paper provides a comprehensive look at the first decade of foreign investor activism in Japan, the second largest stock market in the world with many underperforming and cash-rich firms. Barriers to shareholder activism have historically been high but we document an unprecedented wave of block acquisitions by hedge fund and other investors with a total of 916 stakes reported in the period between 1998 and 2009. There is, on average, a modest positive stock price reaction to the announcement of activist investments, particularly for events involving hostile funds. The long-run returns on activism are low overall, but positive for events involving hostile funds. We find that while activists have forced target firm managers to increase their payouts compared to peer firms, there is no evidence of major operational improvements or restructuring. Finally, after 2006 there was a widespread adoption of "poison pills" by firms, particularly those targeted by activists, and a subsequent drop in investor activism. Our paper illustrates the limits to shareholder activism in a country where the takeover market is thin and cannot be used by the activist investor as an exit strategy.

JEL classification: G34
Keywords: Corporate governance, shareholder activism, hedge funds, Japan

---

* We thank Kazuo Yamada for his outstanding research assistance. We are also grateful to Harry DeAngelo, Wayne Ferson, Robin Greenwood, Selahattin İmrohoroğlu, Douglas Joines, Kevin Murphy, Oguzhan Őzbas, David Solomon, Masahiro Watanabe, Mark Westerfield, and seminar participants at the University of Southern California for their comments and suggestions. (Hamao: hamao@usc.edu, Kutsuna: kenji.kutsuna@gmail.com, Matos: pmatos@marshall.usc.edu)

1. Introduction

Capital markets in Japan have experienced a remarkable economic and regulatory transformation in recent years. Following the collapse of the real estate and stock market bubble in 1990 and the ensuing "lost decade" of economic slump, banks sold much of their equity holdings and inter-corporate shareholdings declined (Hoshi and Kashyap 2004). Foreign investors, however, most of them institutional money managers, have played an increasingly active role. Foreign ownership of stocks listed on the Tokyo Stock Exchange increased from 5% in 1990 to 24% by 2008. Local pension and mutual fund holdings also increased. Figure 1 illustrates these changes.[1]

This rise of foreign (institutional) shareholders in Japan has led to a shift in the balance of power between corporate insiders and outside shareholders. Several activist hedge funds and other institutional investors have been at the forefront. A common definition of an activist is a shareholder "who tries to change the *status quo* through 'voice,' without a change in control of the firm" (Gillan and Starks 1998). Hedge fund activism exploded in the U.S. in the last decade (see Brav, Jiang, and Kim 2010 for a survey) but dropped considerably during the 2007-2008 credit crisis (Greenwood and Schor 2009). Activist investing has been especially controversial in Japan as it is perceived as an imported practice led by foreign-based funds or by local funds employing U.S. techniques.[2]

In this paper, we focus on the role that U.S.-style shareholder activism has played in corporate governance and performance in Japan. Did it have positive and significant effects? On the one hand, there is considerable potential to unlock shareholder value in Japan, as many firms have high cash balances and weak growth prospects, and activists can push for higher payouts. *The Economist* (2007) reports that Japanese firms hold 16% of GDP in cash and securities; the equivalent figure in the U.S. is about 5%. Japan also has large and liquid capital markets. On the other hand, with its tradition of relationship-

[1] The Tokyo Stock Exchange does not separate shares owned by trust banks for their own accounts from shares owned on behalf of investors in custodial accounts, so the percentage for trust banks is overstated.
[2] See Greenwood, Khurana, and Egawa (2009) for a case study of the most prominent U.S.-based fund, Steel Partners.

based corporate culture, barriers to shareholder activism are higher in Japan than in the U.S. and other markets. The earliest example of U.S.-style shareholder activism in Japan was T. Boone Pickens, the U.S. corporate raider, who lost an uphill battle in 1991. In the next decade, there were no large-scale shareholder activist events. The wave of investor activism started only in the early 2000s after the Japanese stock market hit bottom. One big impediment to activism in Japan was that there is no clear exit strategy for the activist investor because Japan has a very thin market for corporate control. However, merger and acquisition (M&A) activities have more than doubled in Japan in the 2000s, to about 3,000 deals in 2007 (Recof 2009). Recent evidence for the U.S. shows that returns from activism are driven by the ability of hedge fund activists to force targets into a takeover (Greenwood and Schor 2009). Their study also finds that activist investors perform poorly when there is little activity in the market for takeovers.

We construct a comprehensive dataset of fund activist engagements in Japan between 1998 and 2009. We hand collect data on all mandatory filings of block-shareholdings that exceed the 5% threshold. This requirement is similar to schedule 13-D in the U.S. (used in Brav *et al.* 2008; Klein and Zur 2009; Clifford 2008; and Greenwood and Schor 2009). We identify 34 activist funds, 26 of them foreign according to the nationality of the top managers. Activist block acquisitions peaked in 2006 and 2007. About half of the investors have a hostile attitude as determined by press reports and the indication in their filings of having the intention to make "significant proposals." Our sample represents a total of 916 filings of block acquisitions by activists of 786 unique firms. Of the targeted firms, 759 are non-financials, a significant fraction of the over 3,600 publicly listed non-financial firms tracked by the Nikkei database in December 2008. Activism was substantial in yen terms as well, with investments totaling ¥6.8 trillion in terms of the cost of acquisition at the initial filing dates (about US$ 65-75 billion depending on the exchange rate used).

We start by providing a description of shareholder activist campaigns in Japan. The large majority of activist funds accumulate ownership stakes of 5% to 10% that fall short of majority control and are long-term engagements with an average duration of investment that exceeded two years. We offer also a detailed look at some of the high profile activist funds: Steel Partners (hostile and foreign), Yoshiaki Murakami (hostile and domestic), Sparx (non-hostile and domestic) and Taiyo Pacific Partners (non-hostile and foreign). We then examine what firm attributes make a company more likely to be targeted by activist funds. Similar to U.S. firms, "value" firms are more often targeted but, in contrast to the U.S. market, firms subject to activism in Japan are uniquely targeted for high cash balances and underleverage. This is consistent with press reports that firms are targeted in an attempt to reduce cash holdings and increase dividends and share buybacks. Activist funds target a considerable number of firms listed outside of the Tokyo Stock Exchange, which constitutes the main stock index. Nonetheless, activist funds, on average, tend to target more liquid stocks. Firms held predominantly by foreign shareholders are more likely to be targeted, which suggests that other foreign (non-activist) investors acted as facilitators.

Second, we turn to the question of whether fund activism works in Japan. We look at whether fund activism affected share values in the short run. We show that on average the market reacts favorably, with a +1.8% positive abnormal return to the first filings by activist investors of an acquisition of a stake exceeding 5% of shares. This announcement effect is lower than the average abnormal returns around activist block acquisition disclosure in the U.S., which range from +7% to +3.6% (Brav *et al.* 2008; Greenwood and Schor 2009). For firms targeted by "hostile" activists, the average announcement return is +3.8%. This more favorable market response suggests that the market perceives more value improvements when the activists′ approach is more aggressive.

To assess whether there is actual value improvement from activist engagements, we examine buy-and-hold returns over the full duration of the activists' investments. We find that the buy-and-hold abnormal returns net of Nikkei Sogo Index[3] buy-and-hold returns were, on average, +4.57% for the activist funds (or +1.39% per year).

[3] The Nikkei Sogo (Comprehensive) Index is a value-weighted stock price index with dividends reinvested, covering all listed firms (except for stocks listed on JASDAQ, the Japan Association for Securities Dealers Automated Quotation System). It is the most comprehensive stock market index in Japan.

Interestingly, when we isolate the events initiated by "hostile" investors, we find that the buy-and-hold abnormal returns are higher at +13.48%. We also conduct a more formal long-term return analysis using calendar time portfolio returns (CTPR) by buying firms that are targeted by activist investors at the time of the first investor filing and selling when the investor reduces its stake. We form an equal-weighted (EW) portfolio that is long on equal amounts on all open positions by activist funds and a value-weighted (VW) portfolio with weights in proportion to the yen position by the activist funds in each firm. We show that the EW portfolio does not statistically outperform when adjusting for three return factors (market, size, and value) for the Japanese market. The monthly alpha for the VW portfolio is, however, statistically greater than zero at +1.0% per month (+12.7% in annualized terms). Interestingly, the activist portfolios load positively on the small-cap and value return factors, indicating their investment style. When we analyze only events involving "hostile" funds, we find significantly positive returns both in EW and VW terms (but no significant results for "non-hostile" funds). Overall, the CTPR analysis suggests that activist investment gains are concentrated in large-caps and in events involving "hostile" funds.

Third, we explore whether the activists' interventions have real effects or whether their portfolios' over-performance reflects simply skill by funds at identifying undervalued target firms. We conduct a detailed analysis of the "significant proposals" made by activists for a subset of the 234 proposals where such information was available. We performed news searches and analyzed companies' financials to determine the success for each proposal in terms of whether the activist funds' stated goals were achieved. We conclude that the most frequent activist demands were for dividend increases and share repurchases, and that these were areas in which activists were most successful. Less frequently, activists demanded major reorganizations and operational changes (including M&As or asset sales), but in these areas they were less successful.

For the complete sample of 786 targeted firms, we collect data on structural changes based on whether there were any subsequent corporate action filings for the stock of the target firms. We show that only 269 firms were subject to any corporate changes, either as targets or acquirers in M&As or restructuring (and only 35 were eventually delisted). So, overall, about two-thirds of the target firms never experienced a significant change that required a filing with the securities regulator.

Fourth, we look at the overall impact of shareholder activism by examining the *ex post* performance of target companies. We find no evidence that activism events are associated with improvements in the main measures of operational performance (such as return-on-assets or sales growth). Rather, our results show that the impact is limited to increases in shareholder payouts in the form of higher dividends, and especially share buybacks for target firms and not for matching firms. We find some changes in corporate governance practices (namely some moderate improvements in board independence and in the adoption of U.S.-type "committee-based" boards of directors). These findings support the perception that the primary strategy of activist funds in Japan involved building a stake and being able to persuade firm managers to increase payouts, but stops short of achieving substantive restructuring of target firms.

Finally, one area in which investor activism seems to have had a major effect is the adoption by Japanese firms of "poison pill" takeover defense measures. The first cases of poison pill adoptions occurred in 2004 and 2005. Since then 610 firms have adopted defense measures (*i.e.*, about one-sixth of all listed firms). We show that firms targeted by activists were more likely to adopt a poison pill after being targeted. The test case for the legality of "poison pills" was the targeting of Bulldog Sauce by Steel Partners, the U.S. activist hedge fund. The court decided in favor of the company.[4]

Our paper contributes to the literature on shareholder activism by providing the first comprehensive examination of the largest investor activism wave in a capital market outside the U.S. Karpoff (2001) and Gillan and Starks (2007) report that the involvement

[4] In May 2007, Steel Partners launched a tender offer. Bulldog's board of directors announced a plan to offer three rights per share to shareholders that could not be exercised by Steel Partners, The plan was approved by a majority of shareholders. Steel Partners' motion for a preliminary injunction was rejected. The activist fund then appealed to the Tokyo High Court and then also to the Supreme Court, but its appeals were denied.

of large institutional investors increased dramatically in the U.S. after the mid-1980s, with the advent of public pension fund activism, but documented effects have been mixed.[5] In the more recent wave of hedge fund activism in the U.S., authors have found positive abnormal returns around the time a hedge fund announces its activist intentions (Brav, Jiang, Partnoy, and Thomas 2008; Clifford 2008; Klein and Zur 2009; Greenwood and Schor 2009). Gillan and Starks (2007), however, argue that the long-term effects are still unknown. Evidence outside the U.S. is scarcer. Recently, Becht, Franks, Mayer, and Rossi (2009) study the activist investments of the U.K. pension fund Hermes, while Becht, Franks, and Grant (2009) perform a broader study of investor activism in Europe. For Japan, Uchida and Xu (2008) provide a case study analysis limited to Murakami and Steel Partners; the analysis in Ono (2008) is limited to the abnormal returns around announcement dates.[6]

The remainder of the paper is organized as follows. In Section 2, we describe the economic and legal changes and the emergence of shareholder activism in Japan. Section 3 describes the data and provides case studies of high-profile activist investors. Section 4 provides results on what types of firms are targeted. Section 5 examines stock market short-run announcement returns and long-run returns to activist engagements. Section 6 presents a detailed analysis of the success of activist campaigns, the performance of target firms before and after activism, and the adoption of "poison pills" by firms in reaction to investor activism. Section 7 summarizes our findings.

2. Institutional Background on Japan and Conditions for Shareholder Activism

Franks, Mayer, and Miyajima (2009) detail the history of corporate ownership and financing in Japan. In the second half of the 20th century, bank financing dominated external finance; most Japanese firms had cross-shareholdings with their main bank and other companies with interlocking business relationships known as *keirestu* (see, e.g. Bergloff and Perotti 1994; Weinstein and Yafeh 1998). Corporate and bank shareholders

---

[5] Earlier papers had looked at 13D filings by corporate raiders (*e.g.*, Mikkelson and Ruback 1985; Holderness and Sheehan 1985).

[6] Elsewhere in Asia, Kim, Kim, and Kwon (2009) examine institutional block-shareholders in Korea.

supported the management of companies in which they owned shares. Hostile takeovers were virtually non-existent. M&A activities were typically between agreeing parties, with the approval of friendly institutional shareholders.

After the collapse of the real estate and stock market bubble in 1990 and the ensuing "lost decade" of economic slump, however, this situation started to change. Banks suffered severe capital shortages and sold much of their equity holdings to raise capital, and firms moved from bank financing to bonds, commercial paper, and other non-bank financing (Hoshi and Kashyap 2004). In an attempt to stabilize the banking system, legislation limiting the amount of banks' shareholdings was passed in November 2001 (effective January 4, 2002). Banks were required to sell equities (valued at acquisition cost) that exceeded the amount of their Tier 1 capital. The government also established the Banks' Shareholding Purchase Corporation to facilitate the sales. *Keiretsu* ties weakened over time through increasing competition and globalization of the Japanese economy. Corporate cross-shareholders declined in the 1990s and 2000s. Foreign investors' share ownership became increasingly prominent (see Figure 1).

At the same time, Japanese capital markets were subject to substantial regulatory reforms. First, the government and stock exchanges encouraged new start-up firms to list their stocks by introducing new sections in stock exchanges with less stringent listing standards.[7] Firms listed on these exchanges are typically not connected to *keiretsu* and are not typically held by institutional investors. Second, there were several legislative changes related to corporate finance and control. An amendment of the Commercial Code in 1997 introduced executive and employee stock options. A 1999 amendment of the same law enabled stock deals (exchanges of shares instead of cash payment) for M&A activities. A 2001 amendment lifted limitations on stock repurchases (which had only become legal in 1994 with severe restrictions), making it possible for firms to

[7] In 2000, Softbank and NASDAQ established NASDAQ Japan on the Osaka Stock Exchange. After experiencing financial difficulties, NASDAQ pulled out, but the market for young firms continues on the exchange as Hercules. The Nagoya Stock Exchange started Centrex for small and emerging firms in 1999. In the same year, Tokyo Stock Exchange established Mothers for young firms. The Sapporo Stock Exchange's Ambitious and Fukuoka Stock Exchange's Q-Board followed suit. There is also the JASDAQ market for young, small firms.

repurchase shares and put them as treasury stocks upon approval of shareholders (after 2003, this requires only a resolution by the board of directors). Third, the "committee system" was introduced in a 2003 amendment of the Companies Act. Under this system, independent directors must represent a majority of the audit, compensation, and nomination committees of a corporation. In 2008, legislation similar to the Sarbanes-Oxley Act in the U.S. (called the J-SOX Law) regarding internal firm controls came into effect. Appendix A compares the corporate governance systems in the U.S. versus Japan.

At least on paper, Japan has stronger shareholder rights than the U.S., if shareholders decide to exercise them. Indeed, this may be one of the reasons why activist funds became more interested in holding Japanese company shares. For example, in Japan dividend payments have to be approved at shareholders' meetings, whereas in the U.S. they are not subject to shareholder ratification. Directors can be dismissed for any reason by shareholders' vote in Japan, whereas in the U.S., company charters can limit director dismissals for specific reasons only. Overall, a board's monitoring power is relatively strong in the U.S while shareholder rights are moderate. In Japan, the monitoring role of boards is often not separated from the role of executing business, and (friendly) shareholders have acted as firm monitors in the past. Appendix B compares the U.S. and Japanese legal environment for shareholder activism.

Taken together, these changes in Japan's economic and legal environment made the time ripe for shareholder activism to emerge as a major force in the 2000s.

3. Data

In this section, we describe our sample and provide examples of activist investors along with summary statistics.

3.1. Sample of Activist Stakes

Our analysis focuses on block acquisition filings by activist fund managers. Our data collection comprised three steps: (i) hand-collecting block-shareholding filings; (ii) identifying which block-shareholding filers constituted activist funds; and (iii) compiling information on the target firms.

In the first step, we obtain data on block-shareholding filings that are mandatory when an investor exceeds an ownership threshold of 5% of a company's stock. We use the filings compiled in EDINET,[8] a site maintained by the Financial Services Agency (FSA), as our main data source. EDINET is an electronic disclosure system that includes all disclosure filings by investors and publicly traded firms with the FSA for the last five years. Filing data older than five years are primarily obtained from publicly accessible websites, such as *Kabunushi Pro* (Shareholder Pro) and *Kangaeru Kabushiki Toshi* (Analytical Stock Investment).[9] The accuracy and integrity of the data are cross-examined using other websites.[10] We also use a subscriber-based on-line database provided by eol, Inc. which provides historical filings with the FSA and the Ministry of Finance. Finally, we examine large shareholder databases from Toyo Keizai Shinpo Sha and Nikkei, and search articles using Nikkei Telecom 21 to determine the earliest known date of activist fund activities.

Appendix C provides details on the disclosure rules of large block-shareholdings in Japan in comparison with the U.S. Similar to the 13-D mandatory filing requirement in the U.S., in Japan the 5% rule on block-shareholdings (first introduced in December 1990 in the Securities and Exchange Act and then later in the Financial Instruments and Exchange Act of 2007) requires individuals and institutions to report crossing the 5% threshold within five business days after the transaction. Thereafter, changes of over 1% (increase or decrease) must be reported within five business days. Until January 2007, institutional investors were exempt from frequent reporting under the "Special Reporting Provision" (Article 27, No. 26). Recognizing the burden that would be placed on passive institutional investors each time they crossed the 5% threshold in the course of normal

[8] The websites is http://info.edinet-fsa.go.jp/,
[9] The respective website are http://www.kabupro.jp/ and http://g2s.biz/
[10] These are http://kabuhoyu.cc/, http://www.kabutool.net/tairyo.html, *etc.*

operations, this provision required investors to report only every three months, except for those with the intention of "controlling the business activities" of the issuer. Thus, before January 2007, the date of the report could have been as much as three and a half months later than the actual transaction date. In the filings we collected, all activist funds took advantage of this special reporting provision, and reported only once every three months, stating their investment purpose as "pure investment" or "to maximize investment return" rather than "controlling the business activities."

The special reporting provision was amended to require more frequent disclosure following the hostile nature of the now infamous activities of Yoshiaki Murakami's funds (see Section 3.2). The amendment became effective on January 1, 2007, and all passive institutional investors are required to indicate more than two dates in a month as their reference dates, and report holdings that exceed 5% (and changes of over 1% thereafter) within five business days after the reference date. In the same amendment, the definition of investors who can use the special reporting provision was changed from those "(whose) purpose of holding is not for controlling the business activities" to those "(whose) purpose of holding is not for effecting material changes in or giving material effect to the business activities of the issuer of the said Share Certificates as specified by a Cabinet Order" (Article 27, No. 26). Thus, activist investors who make important suggestions (defined in the Cabinet Order as "appointment and discharge of CEO, significant changes to the composition of directors, rearrangement of organizations, such as mergers and acquisition and going private, significant changes in dividend policy, *etc*.") do not qualify for the special reporting provision, and must submit reports within five business days of a transaction. The same amendment mandates submission of these reports on-line via EDINET starting April 1, 2007, so that filings are immediately available to the public. After January 1, 2007, many funds changed their purpose to "to make important proposals" for their existing investments (see Appendix C).

In the second step in our data collection process, we identify which block-shareholding filers constitute activist funds as opposed to other classes of investors (*e.g.*, insiders, raiders, private equity funds, *etc*.). To accomplish this task, we rely on a wide array of newspaper, magazine, and website articles on investment funds obtained through a search of Nikkei Telecom 21, Nexis/Lexis, and Google. We excluded from the search funds that specialize in private equity investment and workouts of distressed firms. Activist funds in our sample did not typically seek control of the target firm or have intentions to take it private. Through this process, we identify a total of 34 activist funds listed in Table 1, Panel A.[11] Most of these investors represented value-oriented institutional money managers. Many could be classified as hedge funds, some specializing in Japan (Steel Partners, Sparx, and Sandringham) and some well-known international funds that operate in the U.S. and Europe (Harbinger Capital, Perry, TCIF – The Children's Investment Fund). More traditional value-oriented fund managers that have taken activist stances in Japan (Brandes, Arnhold and S. Bleichroeder, and Wellington) are also included, as well as a few entrepreneurial investors (Murakami) and their offspring (Effissimo).

In the final step in our data collection process, we gather stock price and accounting information on the target firms using Nikkei Portfolio Master Database and Datastream. We also obtained various index returns for market benchmarks from Nikkei and Nomura Securities. Accounting data and information on boards of directors are obtained from Nikkei; data on filings of corporate restructuring are obtained from Nikkei Financial Quest; and data on takeover defense measures ("poison pills") are collected from various issues of the *MAAR* magazine, published by Recof Data.

3.2. Examples of Activist Investors in Japan

Before the wave of hedge fund activism in Japan in the 2000s, there was one isolated case of U.S.-style activism that was met with strong resistance and eventually defeated. In April 1989, T. Boone Pickens, the U.S. corporate raider, became the largest

[11] The 34 activist funds used a total of 47 investment vehicles as several funds used multiple vehicles. Murakami used four vehicles: M&A Consulting, MAC International, Ltd., MAC Asset Management, and MAC Asset Management Pte Ltd. Its funds were named differently, such as MAC JASF Investment Fund, MAC Small Cap Fund, MAC Buyout Fund, SNFE MAC Japan Active Shareholder Fund (HK), LP, MAC Leveraged Fund, and MAC Corporate Governance Fund. We take the four vehicles to track all filings for these funds, but aggregate them into a single entity, "Murakami."

shareholder of Koito Manufacturing, an auto parts maker with close business ties with Toyota Motor (his holdings started at 20%, and eventually increased to 26%). Pickens asked for board representation but Koito's shareholders refused. Pickens then claimed that related party transactions within Toyota's *keiretsu* were priced in favor of Toyota, and demanded Koito's books be opened for him. He also engaged the U.S. media in criticizing Japanese business practices in general. The timing of these events coincided with the U.S.-Japan Structural Impediment Initiative, a series of negotiations between the two governments related to opening the Japanese market, and some U.S. senators requested that this case be brought to the talks. For the June 1990 shareholders' meeting, Pickens made additional demands, including a dividend increase, disclosure of details on the pricing of auto parts, and representation on the board. Again, all of these demands were rejected in the meeting.[12] On April 29, 1991, Pickens retreated and published an article in the *Washington Post* ("The Heck with Japanese Business: Why I'm Not Interested in Trying to Compete in a Cartel System").

This episode occurred at the peak of the market bubble period in Japan, and after Pickens withdrew, there were no significant activist events in Japan in the 1990s. This changed, however, with the new wave of corporate activism in Japan in the 2000s after the stock market hit bottom. Several different activist styles were pursued. To offer some insights into our analysis, in the next Sections we illustrate in detail some of the top activist funds.

The first activist we examine is Yoshiaki Murakami, a former government official, who was commonly considered the leading individual shareholder activist in Japan, funded by leading Japanese business establishments. In 2000, Murakami's funds launched the first-ever hostile takeover bid in post-war Japan. The bid was against Shoei, and it did not succeed. In 2001, he launched a campaign against Tokyo Style, a clothing company (for details, see *The Economist* 2002). At the time of the announcement, the value of the firm's cash and securities exceeded its market capitalization, despite the firm having little debt. Initially acquiring 5.77% of Tokyo Style shares through MAC International Ltd.,

[12] Meanwhile, the Japanese government introduced the "5% rule" of disclosure of block-shareholdings in December 1990. The report submitted by Boone Co. revealed that the shares it owned were purchased from a Japanese real estate firm, Azabu Building, using a loan from Azabu itself.

Murakami initiated but lost a proxy fight. He did, however, succeed in getting the firm to increase its cash dividends and share buybacks (*Financial Times* 2002b). In another high-profile case, Murakami acquired shares of Nippon Broadcasting System. Finally, in June 2006, Murakami was arrested and charged with insider trading related to Livedoor's acquisition of a large block of shares of Nippon Broadcasting.[13]

The second example is Steel Partners.[14] This fund is the best-known U.S.-based "hostile" hedge fund focused on Japan. Although it launched a few tender offers, the fund's main strategy consists of taking large stakes in small companies and persuading management to increase dividends and share repurchases (Greenwood, Khurana, and Egawa 2009). It entered Japan in 2002 through Steel Partners Japan Strategic Fund, a partnership with Liberty Square Asset Management, another activist hedge fund. During our sample period, Steel Partners targeted 41 companies. Among its first investments was Yushiro Chemical where its first filing shows it assembled a shareholding of 5.1% and subsequently pressured management to distribute the firm's large cash holdings. The company's stock price responded positively. Management was slow to respond, and the fund launched a takeover bid. Although the bid failed, eventually management agreed to increase the annual dividend. In another well-publicized case, Steel Partners launched a takeover of Myojo Foods. In response, Myojo Foods arranged for a buyout from Nissin Foods, which provided a good return for Steel Partners.[15] With regard to another target firm, Bulldog Sauce, Steel Partners' activities led to a landmark ruling by the Supreme Court supporting the use of "poison pills" In Japan. Greenwood, Khurana, and Egawa (2009) provide a case study of Steel Partners' recent involvement in Aderans resulting in Steel Partners nominating directors to the company's board.[16] However, the fund did not succeed in all instances and was forced to reduce its stakes several times (one such case is

[13] *The New York Times*, "Murakami Gets Two Years in Jail in Livedoor Scandal," July 19, 2007.
[14] Another case study of a U.S.-based hedge fund's activity in Japan is Foley and Greenwood (2009).
[15] This was the first "white-knight" case in Japan.
[16] At the most recent shareholders' meeting in May 2009, Steel Partners' proposal to replace the CEO was voted favorably by the majority of shareholders.

its investment in Brother Industries). According to press reports, the 2007-2008 financial crisis forced Steel Partners to cut investments and return money to clients.[17]

Two final examples of shareholder activism are Sparx and Taiyo Pacific Partners. Sparx, Asia's largest hedge fund manager, tends to take a more subtle "non-hostile" approach.[18] The founding shareholders of Sparx were CalPERS and Relational Investors (*Financial Times* 2002a). Jacoby (2007) describes that CalPERS, the prominent U.S. public pension fund, failed in its first attempts in the 1990s to employ the activist tactics it developed in the U.S. Subsequently, in the 2000s, it started to use "relational investors" like Sparx. Despite its less aggressive approach, Sparx claims to have succeeded in pressuring firms to return cash to shareholders. The U.S.-based Taiyo Pacific Partners also tries to work cooperatively with Japanese companies to boost shareholder value. Both Sparx and Taiyo have avoided the threat of hostile takeover employed by more raider-like funds such as Murakami and Steel Partners.

3.3. Summary Statistics

Table 1 provides descriptive statistics for the sample of 916 activism events in which an institution discloses a position of 5% or greater ownership in a firm. The earliest event dates are from 1998, and our analysis ends in July 2009. Close to three-fourths of the activist share stakes were formed between 2004 and 2007. A total of 759 unique firms were targeted, which means that some companies were targeted more than once. This represents a substantial level of activity, with investments totaling ¥6.8 trillion when assessed at the cost of acquisition in the initial filing dates (about US$65-75 billion depending on the exchange rate used).

Panel A of Table 1 separates the number of events for the 34 activist funds. The top activists in terms of number of filings were Sparx (245 filings, ¥605 billion in initial investments), Atlantis (77, ¥39 billion), and Murakami (64, ¥376 billion). Funds are grouped first in terms of their top management's nationality. Eight of the funds are run

[17] Reuters, "Steel Partners Cuts Stakes in Japan Firms by $1.7 Billion," January 16, 2009.
[18] Business Week, "Patience Pays for Sparx Group," September 17, 2007.

by Japanese nationals (with three of them registered outside Japan).[19] Next, we classify funds based on their perceived attitude towards target firms ("hostile" vs. "non-hostile") as reported in press articles. Seventeen of the funds were reported in the press to have a hostile attitude, including Murakami, Steel Partners, Liberty Square, Brandes, *etc*. For the other 17 funds, there was no public information of a hostile confrontation with target firm management. Using this criterion, we identified a total of 356 hostile cases (39% of the sample). Since after January 2007 investors were required to file when they intend to make a "significant proposal," as an alternative to relying on press reports at the time of filing, we used the post-2007 filing by each institution to "fill back" for the earlier period. In the reports filed after 2007, 20 funds indicated that they may make important proposals.[20] These 20 activist funds are classified as "significant proponents" (including Sparx which we classify as non-hostile according to press reports). Finally, Panel A shows that activist block acquisitions peaked in 2006 and 2007. Early entrants were Atlantis, Murakami, Silchester International, and Sparx.

Panel B of Table 1 provides summary statistics on the firms targeted. We match 858 events to non-financial firms covered by the Nikkei Financial Quest Industrial database;[21] 40% of the target firms are not listed on the Tokyo Stock Exchange (TSE), which means many activists targeted firms in less visible stock markets. The next most targeted market is JASDAQ. Panel B also shows that target firms spanned all industries (with the exception of airlines).

Panel C of Table 1 presents statistics on the capital committed by activist funds. The average size of the activist stake at the time the fund first filed a position exceeding the 5% threshold was worth on average ¥7.8 billion (at cost), representing 6.8% of the

[19] These three funds are: Murakami, who relocated his MAC Asset Management to Singapore in 2006; Effissimo, a fund run by some of Murakami's offspring also registered in Singapore: and Sandringham, a fund registered in the U.K.

[20] We include Murakami as a "significant proposal" making fund, even though his funds ceased operations before 2007, as he was a vocal shareholder with many proposals to firms he targeted. In fact, the "significant proposal" legislation was enacted in response to Murakami's activism activities.

[21] The sixty firms that are eliminated from the matching are banks, insurance companies, securities houses, and other financial institutions. These firms are added back in the analysis of returns in Section 5.

outstanding shares of the target companies. Subsequent EDINET amendment filings revealed that funds increased these stakes reaching, on average, a maximum holding level of 9.9% in target companies. Thus, the activists in our sample accumulated ownership stakes that typically fell short of the level required for majority control of the target firms.

Panel C of Table 1 also provides a measure of the length of time activists held their investments. While it is not possible to determine the exact exit date when a fund's economic interest in a firm ends, we are able to obtain the fund's last "large shareholding" filing. If the last filing is over 6%, we assume the position was maintained until June 31, 2009 (the end of our study) because the fund would have been required to file if the position had decreased by more than 1 percentage point. If the fund's last available filing is below 6%, we assume the fund has exited (even if it still actually retains less than 6%). The last two rows of Panel C show that activist engagements, on average, exceed two years (791 calendar days).[22] While we recognize that our definition of exit date underestimates the total length of activist investments in the target companies, Panel C shows that these investments are more long-term than typically assumed in the press.

Figure 2 represents graphically all of the activist engagements (grouped by fund) in the sample. Again, one can see that many activist positions span multiple years. This does not support the frequent criticism that activist investors are short-term traders.

4. Which Firms Are Targeted by Activist Investors?

To provide further insight into the impact of shareholder activism in Japan during our study period, it is important to understand what types of firms activists targeted. Panel A of Table 2 provides summary statistics of target firm characteristics in the year before they were targeted. We gather data from Nikkei on a total of 858 (non-financial) event firms. To compare the target firms with their peers, we use two matching procedures. The first procedure follows Brav *et al.* (2008). For each target firm we identify

[22] The minimum of one day holding period applies when a fund reports the first 5% (but less than 6%), but no further reports are made. It is possible that the fund held the stock longer than one day in these cases.

comparable firms from the same year, in the same Nikkei industry (see Table 1, Panel B), and in the same 5 x 5 size (Assets) and market-to-book (Market value of equity/Book value of equity) sorted portfolio. We create up to five matches for each target firm; if there were more than five possible matches, we selected five randomly. Of the 858 event firms that were identified through Nikkei, we could find comparables for 829 events. For the 29 cases where this narrow criteria yielded no match, we relaxed the criteria to match for the same year and industry but from 2 x 2 size and market-to-book sorted portfolios (*i.e.*, above and below the median in each criterion). We find comparable firms for 27 out of the 29 event firms. Thus we obtained a final total of 3,609 comparable firms for 856 (of 858) event firms. The second matching procedure is to use the same industry only to choose comparable firms. By not strictly matching the size and market-to-book ratio, this procedure yields many more comparable firms (ranging from 7,486 to 10,123 firms).

Panels B and C of Table 2 report t-test statistics for the difference in characteristics between target firms and their peers. Panel B illustrates that, as a result of the matching procedure, there are no statistical differences between *Size (Assets)* and *Market-to-Book* ratios of target and comparable firms. Panel C, however, shows that target firms have significantly lower *Market-to-Book* and *Tobin's Q* ratios when compared to their peer firms in the same industry. On the other hand, *Size (Assets)* and *Market Capitalization* are not significantly different, meaning that activists target similarly sized firms, given an industry. Regardless of the matching method used, target firms are shown to have, on average, significantly less *Leverage* and have higher *Cash-to-Assets*. The ownership structure of target firms is also tilted toward companies with higher foreign ownership (*Pct Foreigners*), higher financial institution ownership (*Pct Financials*), and more management ownership (*Pct Directors*). Target firms are more likely to have adopted takeover defense measures (*Poison Pill*) before the activist announced its stake. Finally, target firms have higher stock liquidity (*Stock Turnover*) than their industry/size/market-to-book matched peers.

Table 3 presents probit regressions of the probability that a firm will be targeted by an activist investor, using the same two matching procedures. This analysis provides information about what firm attributes make a company more likely to be targeted. We also provide the marginal effect of each explanatory variable.

The results show that target firms tend to lag comparable firms in terms of return on assets (*ROA*), which provides some indication that activists targeted poorly performing firms with some potential for improvement. The negative and significant coefficient on *Tobin's Q* implies that activist funds are "value" investors; activists targeted firms that are at an average valuation discount. The targets' capital structure also seems to matter, as target firms are less levered (*Leverage*), which means activists may be looking for the potential to add leverage because of unutilized debt capacity. We also find that target firms have higher cash-to-assets ratios (*Cash-to-Assets*), at least relative to their industry/size/market-to-book matched peers. This finding accords with some reports that activists, whether "hostile" (such as Steel Partners) or not (Sparx), tend to target firms with large cash holdings and subsequently pressure management to increase distributions to investors (dividends and share buybacks). High levels of cash and low use of debt would be consistent with the idea that activists address the agency costs of "free cash flow" (Jensen 1986).

Target firms also have significantly higher foreign ownership (*Pct Foreigners*). This may be an important factor as activists, given their minority stakes, may have to rely on other unfriendly (to the firm) shareholders to implement changes. In addition, activist funds tend to target firms not on the Tokyo Stock Exchange (*TSE listed*), and therefore out of the main stock index. This implies that target firms are less familiar to, and possibly neglected by, other investors. The second probit specification of Panel A shows, however, that funds tend to target more liquid stocks (*Stock Turnover*).

It is important to compare and contrast activism in Japan versus the U.S. (Brav *et al.* 2008). Similar to U.S. firms, "value" firms were more often targeted but, in contrast to the U.S. market, firms subject to activism in Japan were uniquely targeted for high cash balances and underleverage.

5. What Are the Returns to Activist Investors?

To address whether activist engagements in Japan created value for other shareholders, we examine stock market returns, both announcement event-day returns (the market's short-term reaction) and long-run returns.

5.1. Evidence Around Filing Event Days

We first present event-day returns and trading around the first filing of a large shareholding by an activist investor in our sample. Figure 3 plots the average buy-and-hold abnormal return (BHAR) for each trading day around the disclosure filing. Time 0 in this graph corresponds to the filing date an activist investor reports a position exceeding 5% of outstanding shares in a firm. The line plots the average buy-and-hold return in excess of the buy-and-hold return of the Nikkei Sogo (Comprehensive) Index.[23] There is a run-up, on average, of about 1% in the five days prior to the filing date and an abnormal price jump of about 1% on the filing date. Naturally, the filing date may not be a perfect proxy for when the market learns about the activist's first decision to engage.

Figure 3 also includes the average abnormal turnover in the event stocks (bars in red). This was calculated by dividing the daily stock trading volume by the average in the preceding (-100, -40) trading days. There is some evidence that volume around the filing date was 50% higher than the average volume in the period prior to the event. This could be a direct result of the activist fund acquiring its stake (or gaining a toehold in the firm) or other investors also trading around the activist engagement date. Two possible explanations are "wolf packing" (several activist funds coordinate to buy into the target firms) and "herding" (investors are trading on the information of the activist fund and

[23] Nikkei Sogo (Comprehensive) Index is a value-weighted stock price index with dividends reinvested, covering all listed firms (except for stocks listed on JASDAQ - Japan Associations for Securities Dealers Automated Quotation System). It is the most comprehensive stock market index in Japan.

also buying shares on the firm). With regard to wolf packing, in 112 of the 786 unique firms targeted by an activist investor, another activist investor acquired a block-holding in the sample period.[24] In an untabulated analysis, we also examine herding by collecting block acquisition filings by 62 other non-activist institutional investors, such as Barclays Global Investors, JP Morgan Asset Management, and Fidelity Investment, and domestic investors, such as Daiwa Securities Investment Trust Management, Nomura Asset Management, and Tower Investment Advisors. We find that non-activist institutions also bought a block exceeding 5% of the shares in 485 firms of the 786 firms with a first filing (of 916 total filings) of a large shareholding by an activist investor in our sample. From this information we conclude that non-activist institutional blocks seemed to act as "facilitators" of the activist funds' strategy.

Table 4 reports that the average BHAR was +1.8% for the (-5, +5) trading day window for the 864 events in our sample for which we have complete price data.[25] This figure is lower than the average abnormal returns around activist block acquisition disclosure found in U.S. activist hedge fund studies that range from +7% to +3.6% (Brav *et al.* 2008; Greenwood and Schor 2009).

We explore the cross-sectional variation in the market response to investor activism. In Panel A of Table 4 we categorize these events by investor type. As explained in Section 3.1, we use press reports to identify "hostile" funds. The results show that reactions are more positive for events by "hostile" funds. In fact, average abnormal returns are +3.8% in these cases. Announcement returns are not significantly different from zero for "non-hostile" activist fund cases. Second, we find that the price reaction is more positive for events when the investor files with an indication of possibly making a "significant proposal." Third, we use the post-2007 behavior (*i.e.*, whether the investor ever files with an indication of possibly making a "significant proposal" in its post-2007 targets) to "fill back" for the earlier period. We find that price reactions were again positive only for

[24] Note that the sample of firms is 786 unique firms targeted in 916 activism events, whereas our tests in Tables 2 and 3 involved only the 759 unique non-financial firms that were involved in a total of 858 events.
[25] The sample for these tests includes all firms with price data, and is not limited to non-financial firms as in Tables 2 and 3.

events involving investors with a more activist stance. Overall, the results suggest that there are gains from activism to public shareholders when activist funds are more aggressive. Interestingly, news of activist stakes by domestic investors seems to be slightly better received by the market.

We also examine average announcement effects for the individual events involving each of the specific four activist investors we portrayed in Section 3.2. Both of the two top hostile investors (Steel Partners and Murakami) have a more significant positive impact on market prices around the announcement of their stakes. In fact, we do not find a statistically significant effect for the first filing announcements by Sparx, a non-hostile fund.

Panel B of Table 4 shows the market reaction in relation to the *ex post* outcome. First, events are separated by whether the target firm underwent significant structural changes. This is determined *ex post* based on subsequent corporate action filings for the target firm but not known at the announcement date (see Section 6.2 for further details). This is motivated by the Greenwood and Schor (2009) result for the U.S. market showing that most of the returns of activism are driven by the ability of hedge fund activists to force targets into a takeover. As is evident from the sub-panel labeled "Structural Changes," the firms with no subsequent corporate events had slightly lower market effects upon the announcement of the activist stake, but very few target firms are eventually delisted. This means that few target firms ceased to exist as a listed company because of an eventual takeover (including management buyout) or bankruptcy. Second, we categorize events by whether the target firm resisted by adopting a "poison pill" takeover defense measure or not (see Section 6.3 for further details). Although the results are not clear-cut, the market seems to have factored in more positive news when the firm eventually introduced a defense mechanism while the activist fund had a shareholding position.

Panel C of Table 4 provides a placebo test. To establish whether the market reaction to filings by activist investors is significantly positive we collect all 5% filings by non-activist institutional investors. We gather 2,686 such filings by 62 other institutional investors. The non-activist institutions with the most filings are Barclays Global Investors, JP Morgan Asset Management, Fidelity Investment Trust, Schroders Securities and Tower Investment Advisors. We find that the average BHAR to block acquisition by a non-activist institution is 0.06% which is not statistically significantly different from zero. We conclude that, on average, the market reacted positively only to activist engagements, particularly those by "hostile" funds.

5.2. Evidence on Long-Run Returns

One concern with our results in Section 5.1 is that the positive buy-and-hold abnormal returns may reflect a short-lived price reaction. To better assess whether there are more permanent value improvements stemming from activist engagements, we examine buy-and-hold returns over the full term of the activist funds' investments.

Panel A of Table 5 reports statistics on abnormal buy-and-hold abnormal returns (BHAR) for the total duration of activists' engagements. Buy-and-hold returns are computed beginning the day of the announced activism through the day a fund exits, defined by when the last available position filing was below 6%. If no exit information is available, we assume that the holding lasts until the end of the sample (June 2009). We find, on average, total deal holding-period raw returns of -2.44%. But since many of the events occurred during a time period when the Japanese stock market fell, the actual buy-and-hold abnormal returns (BHAR), net of the Nikkei Sogo Index, are +4.57% on average for the activist funds. Given that a large majority of the activist engagements span more than one year, the annualized BHAR is only +1.39%. These BHAR figures are relatively small in economic terms and much lower than results found for hedge fund activism in the U.S. (see Brav *et al.* 2008 and others). Of course, the activism studied by Brav *et al.* (2008) occurred in a bull market in the U.S. Panel A also analyzes the average BHAR separately for firms targeted by "hostile" and "non-hostile" funds. We find that positive abnormal returns are concentrated in firms targeted by "hostile" activists.

We conduct a more formal long-term return analysis using calendar time portfolio returns (CTPR). We form portfolios by buying firms targeted by activist investors at the time of disclosure of a position by an activist investor. This methodology best approximates the actual returns to activist investors and can approximately be replicated by "copycat" investors following the mandatory activist position filings.

First, we form an equal-weighted (EW) portfolio that is long in equal amounts on all open positions by activist funds in target stocks at each time. We add a new position and rebalance the portfolio whenever there is a new filing disclosing an activist investment exceeding 5% of outstanding shares in a firm. The position is sold if the activist's holdings fall below 6% (*i.e.*, if the investor exited). The portfolio is formed with equal weights in all event stocks.

Panel A of Figure 4 illustrates the daily returns following this EW strategy for our sample of activism events over the full sample period. To track their performance, we take a normalized index equal to 100 on July 1, 2001 (the first time there were simultaneously ten open activism engagements), and update it using *CTPR EW index (t) = CTPR EW index (t - 1) × [1 + avg(RET(t)]* where *avg[RET(t)]* = equally weighted average total return (including dividends) of all stocks with at least one positive activist position. One can see in the graph that in the years 2004 and 2005 the portfolio of activist stakes yields positive returns; moreover, the portfolio outperforms broad measures of the market (Nikkei Sogo Index and the TOPIX[26]) as well as small-cap and small value stock indices (Russell Nomura Small Cap and Russell Nomura Small Value). After the stock market started to fall in 2006, the gains of the activist EW portfolio were eliminated. By the end of the sample period (June 2009), the EW portfolio outperformed the broad market indices, but only very marginally outperformed the Russell Nomura Small Value for the overall period. One explanation could be that in the credit crisis period smaller target firms experienced more difficulties, or the takeover and LBO market in general dried up (see findings for the U.S. by Greenwood and Schor 2009).

[26] TOPIX is a dividend-reinvested value-weighted index of all stocks traded on the Tokyo Stock Exchange Section One.

Second, we form a VW (value-weighted) portfolio of event firms. The VW portfolio is long on all target stocks with weights in proportion to the yen positions held by each activist fund in each firm. The yen positions are calculated by multiplying *(% held by activist)* × *(Market Cap of firm)*. We add a position when there is a new filing disclosing that holdings exceeded 5% of the number of outstanding shares of a firm. The position is rebalanced any time an institution subsequently revises its disclosure (*e.g.*, a larger stake such as 7%). The position was terminated if it falls below 6% and there is no subsequent filing. We track the VW portfolio performance by the yen position in each stock times the total return of that stock each day.

Panel B of Figure 4 shows that the VW activist portfolio has better performance. The VW portfolio strongly outperforms the broad market (Nikkei Sogo Index and TOPIX) as well as indices tracking small-caps and small value (Russell Nomura Small and Russell Nomura Small Value) for the period from July 2001 through June 2009. When we compare the EW and VW portfolio results, we conclude that the larger-sized activist investments proved more successful.

Panel B of Table 5 presents more formal CTPR regression tests. Instead of daily performance, we compute monthly returns for the EW and VW portfolios and regress these on contemporaneous market excess return (Market), size factor (SMB) and value factor (HML) for the Japanese market.[27] The positive factor loadings on the SMB and HML factors suggest that the activist fund strategy loads positively on small and value stocks. The test of over-performance of activist investors is whether the alpha (the regression intercept of portfolio returns on the return factors) is positive. Results in Panel B of Table 5 show that the alpha for the EW portfolio is not statistically different from zero. The monthly alpha for the VW portfolio, however, is statistically greater than zero at 1.0% per month (about 12.7% in annualized terms). Overall, the evidence from the CTPR EW and VW analyses suggest that activist investment gains are concentrated in large stocks and do not extend to all target firms (namely smaller cap companies).

[27] These factors are computed as in Kubota and Takehara (2007).

We then analyze the results for events depending on the hostility of the activist fund against target firm management. In Panel B of Table 5, we form calendar-time portfolios separately of firms targeted by "hostile" and by "non-hostile" funds (see Panel A of Table 1 for the classification of funds). We find that positive abnormal returns are concentrated in firms targeted by "hostile" activists. The alpha of "hostile" fund stakes are +0.08% per month for EW portfolio and +1.12% per month for VW portfolio, and they are both significant. On the other hand, both the EW and VE alphas of "non-hostile" fund stakes are insignificant. This is consistent with short-run results in Table 4 that the market perceived value creation in engagements by "hostile" activists.

6. Do Activists Have an Impact on Target Firms?

6.1. Detailed Analysis of the Success of Activist Campaigns

To identify potential sources of value creation or destruction by activist engagements, we first try to analyze the proposals made by activist investors. Unfortunately it is a challenge to put together this information. As described in Section 3.1, after January 1, 2007, activist investors planning to eventually make significant proposals must explicitly indicate this intention in the block-shareholding report (Financial Instruments and Exchange Law, Article 27, No. 26). In fact, many of the funds with open positions submitted new or revised reports stating such intentions. Although the form allows investors to provide specific information about their potential significant proposals, this information was not provided in the forms we examined. This differs from the U.S. 13-D schedule where it is customary for investors to more explicitly state their purpose of transaction in Item 4 (Greenwood and Schor 2009). Schedule13-D lists ten examples of important actions that investors may take. The Japanese form does not give any examples of "significant proposals," but they are separately itemized in a Cabinet Order into thirteen categories.

As a result, we conduct a newspaper and magazine search for publicly released proposals through Nikkei Telecom 21 using the target firm name and fund name as keywords.[28] We find articles in the press on 234 significant proposals made to 88 different target firms. This is a sub-sample of all activist engagements we have analyzed in our paper so far, but it allows us to conduct a detailed analysis of the success of the activist campaigns.

Panel A of Table 6 summarizes the full set of proposals that the activist funds conveyed to the target firms after buying shares. We group these proposals into four broad categories: (i) general requests; (ii) major reorganizations and operational changes (M&As, asset sales, MBOs); (iii) capital structure changes (payout policy and capital structure); and (iv) governance changes (*e.g.*, board, executive compensation, charter provisions). Naturally, the different objectives are not mutually exclusive. Interestingly, the data reveal that the most frequent proposals were related to payout policy (35 proposals for dividend increases and 35 proposals for share buybacks) and less frequently to major reorganizations.

We also use news searches of corporate filings and analyze company financials in order to determine if the activist funds' stated goals are achieved within a three-year period. We find considerable heterogeneity in success rates. Success is higher for proposals related to payout policy (43% for dividend increases and 69% for share buybacks) and lower for proposals related to major reorganizations (29% for M&As and 0% for asset sales).

In Panel B of Table 6, we take a different approach from Panel A. Instead of the *ex ante* proposals made by activist investors, we try to enumerate the events where the target firm underwent significant structural changes *ex post*. This is determined from subsequent corporate action event filings (not known at the activist′s initial engagement date) for the full sample of firms targeted by activists in our study. Data on filings of corporate restructuring are obtained from Nikkei Financial Quest. These data indicate whether the

[28] The newspapers include *Nihon Keizai Shinbun*, *Nikkei Industrial Newspaper*, *Nikkei MJ*, *Nikkei Veritas*, *Nikkei Financial*, *Asahi Shinbun*, *Yomiuri Shinbun*, and *Mainichi Sinbun*. Magazines include *Nikkei Business*, *Weekly*, *Toyo Keizai*, *Weekly Diamond*, and *Weekly Economist (ekonomisuto).*

target firm: (i) was delisted; (ii) acquired another firm; (iii) sold a part of the firm; or (iv) acquired a part of another firm. For the complete sample of 786 firms (targeted in 916 activism events), only 269 are subject to any corporate change either as target or acquirer in M&As or restructuring. Thus, about two-thirds of the target firms never underwent a significant change after the activist engagement that would require a filing with the securities regulator. Interestingly, only 35 target firms are eventually delisted (meaning the target firm ceased to exist as a listed firm because of an eventual takeover or bankruptcy). This is different from the hedge fund activism wave in the U.S. where most of the returns of activism have been driven by the ability of hedge fund activists to force targets into a major restructuring or a takeover (Greenwood and Schor 2009).

6.2. Target Firm Performance Before and After Investor Activism

To examine more broadly whether there are real effects of activist engagements, Table 7 shows the *ex post* performance of all 858 target firms versus industry/size/market-to-book matching companies in the two years before and the two years after being targeted by activist funds. The event year is defined as the year of the first filing of a 5% or greater stake by an activist investor. We report t-statistics for whether the average of each variable is equal for the two years before versus the two years after being targeted. We perform the test both for event firms and for matching companies in the last row of each sub-panel ("T-test (y+2) = (y-2)"). The cell in the southeast corner of each sub-panel presents the t-statistic for the "difference-in-difference" between target and matched firms in the two years before versus the two years after the activism event.

In Panel A of Table 7, we present two operational performance measures (*ROA*, *Growth*). The results show that both measures deteriorated for the target firms. *ROA* also deteriorated for the matching firms, while sales growth actually improved for the matched firms in the sample period. The "difference-in-difference" statistics suggests that firms targeted by activists actually performed worse, on average, than comparable firms in the years around the activist engagements.

We find some support that activists had an impact on financial policies (Panel B of Table 7). Two years after, target firms still had significantly higher cash-to-assets ratios than matching firms. In Section 6.1 above we find that activists typically demand higher firm payouts. Sub-Panels B.3 and B.4 show that both *Dividends/Net Income* and *Repurchases/Net Income* improved for target firms.[29] We note that the "difference in difference" between target and matched firms in terms of *Repurchases/Net Income* is strongly significant. This supports the general perception that the main strategy of activist investors in Japan consists of taking stakes in firms and successfully persuading management to increase payouts. Furthermore, managers of target firms responded by utilizing share repurchases more actively, possibly removing low-valuation shareholders (such as activists).[30]

Finally, in Panel C of Table 7 we analyze governance and ownership changes around targeting by activist investors. Both target and matched firms introduced more incentive-oriented executive stock option plans in our sample period, and there is no significant difference in the pace of adoption between the two groups. On the other hand, Sub-Panel C.2 shows that targeted firms more rapidly introduced outside directors, and Sub-Panel C.3 indicates that significantly more target firms introduced boards with committees, even though the percentage itself is still quite low (at 2.2% two years after the firms were targeted). In untabulated tests, we also found that CEO turnover, which is measured by the change in the first-named representative director (*daihyo torishimariyaku*), shows no change over time for target firms or differ from CEO turnover for the matched firms. Overall, the results on corporate governance measures indicate that in Japan, even though activist engagements did have some impact on target firms, funds were not able to exert a strong influence on management and the CEO. Sub-Panel C.4 also shows that both target and matching firms had significant increases in the percentage of shares held by foreign investors, but foreign investment was heavier for the target firms.

---

[29] Results are robust when we use alternative payout measures such as Dividends/Assets and Repurchases/Assets or Dividends/Cash and Repurchases/Cash.

[30] The advantages of stock repurchases over dividends for managers are reviewed in chapter 13 of DeAngelo, DeAngelo, and Skinner (2009).

In the final item in Panel C, we present information about the adoption of "poison pills." Sub-Panel C.5 shows that while both target and matched firms introduced defense measures, adoption rates were swifter in target firms (from 0.1% two years before to 11% two years after activism) than in comparable firms.

6.3. Adoption of Poison Pills by Firms in Reaction to Investor Activism

The previous section shows that one dimension in which investor activism seems to have had a major effect is the adoption by Japanese firms of "poison pill" takeover defense measures.

We collected data from *MARR*, a magazine published by Recof Data, which is a division of Recof, the leading M&A consulting company in Japan. Nonexistent up until 2004, one of the first cases of the "poison pill" was adopted by Nireco (March 2005). Upon Nireco's announcement that it would exercise the plan in June 2005, SFP Value Realization Master Fund, Ltd., the activist hedge fund that had invested in Nireco, appealed to the Tokyo District Court. In June 2005, both the District Court and the Tokyo High Court threw out Nireco's defense plan since it had been decided upon in a board meeting without approval by the shareholders. Another test case came in the targeting of Bulldog Sauce by Steel Partners.[31] In this case, the use of the "poison pill" was upheld by the Supreme Court in 2007 and the fund lost its legal case. These events bear some resemblance to the landmark 1985 Delaware Supreme Court decision in Moran v. Household International, Inc. for the spread of "poison pills" in the U.S. In May 2007, Japan's Ministry of Economy, Trade, and Industry and the Ministry of Justice published guidelines for listed firms on the adoption of takeover defense measures. Between 2005 and the end of 2009, a total of 610 firms in Japan adopted takeover

[31] In May 2007, Steel Partners launched a tender offer and Bulldog's board of directors announced a plan to offer three rights per share to its existing shareholders which cannot be exercised by Steel Partners, and this was approved by a majority of the shareholders. Steel Partners filed a motion for a preliminary injunction with the Tokyo District Court which was rejected, the activist fund appealed to the Tokyo High Court and then also to the Supreme Court but Steel Partners' appeals were denied.

defense measures. Among the close to 4,000 publicly listed firms in Japan, about one-sixth now have a "poison pill" in place.

Arikawa and Mitsusada (2008) describe the two main types of "poison pills" in Japan. The "prior warning" type is a takeover defense approved in advance, which defines a rule that must be followed by a party pursuing a takeover of a target firm; breach of the rule by the acquirers leads to the issuance of new stock reservation rights. The second type is a "rights plan" which involves the issuance of new stock reservation rights in advance to a trust bank or special purpose corporation. If the takeover event occurs, these rights will be allocated to shareholders.

Panel A of Table 8 displays the adopted "poison pills" by type. It shows that "Type 1 – Prior Warning" measures are by far the most common form of "poison pills" used in Japan and that about 80% of the defense measures were to be approved in shareholders' meeting ("SH mtg approval" and "SH mtg approval with changing charter"). Defense measures are also segmented by the trigger level the acquirer has to reach for the defense to be activated. By far, the most common level is when the acquirer achieves a 20% stake. As shown in Section 3.3, the activist funds in our sample accumulated ownership stakes in the range of 5 to 10%, and thus typically fell short of these trigger levels.

Panel B of Table 8 shows the adoption of takeover defense measures by firms targeted by activist investors. The data illustrate that firms targeted by activists are more likely to adopt a "poison pill" measure after being targeted, with 170 of the 759 firms introducing them (representing an adoption rate of 24%). In terms of the timing of adoption, most were in the year following the activist target date (year T) and in subsequent years.

This time pattern strongly suggests that the adoption was a reaction to targeting by activist funds. In Section 4 we describe how activists have reduced considerably their engagements subsequent to 2007. However, it is hard to attribute this reduction solely to the adoption of "poison pills" because it coincided also with "bear" conditions in the Japanese stock market resulting from the global 2007-2008 credit crisis.

7. Conclusions

We have provided a comprehensive examination of the first decade of U.S.-style investor activism in Japan. We study 916 activism events by 34 funds that occurred during the 1998-2009 period, with activist block acquisitions peaking in 2006 and 2007. The data show that activists target firms in less visible stock markets across almost all industries, but accumulate ownership stakes that fall short of the level required for majority control of the target firms. Activist engagements, on average, exceed two years, suggesting that activist funds are not short-term traders. Target firms are, on average, significantly less levered and have higher cash balances than peer firms, suggesting that activists target firms to pressure management to increase distributions (dividends and share buybacks).

We find that there is, on average, a modest positive market reaction to announcements of activist investments, and these effects are concentrated in events involving hostile funds. In terms of long run returns to activism, we find that gains are concentrated on large target firms and in firms targeted by "hostile" funds. Moreover, while target firms tend to increase their payouts relative to peer firms after being targeted, there is no evidence that activists force target firm managers to institute major operational improvements. Our results suggest that managers of target firms use share repurchases in an effort to remove low valuation shareholders. Additionally, activism is a primary cause for the explosion in the adoption of takeover defense measures. About one-sixth of the Japan′s publicly listed firms now have a "poison pill" in place to thwart hostile takeover attempts by activists.

This paper makes an important contribution to the existing body of knowledge about investor activism that is confined to the U.S. and Europe. It documents that U.S-style shareholder activism had limited success in Japan during the 1998-2009 period. Despite the high potential to unlock shareholder value, activist involvement seems to succeed only in increasing shareholder payouts but not forcing major corporate restructuring. These outcomes may be due to the still thin M&A market in Japan and/or the "bear" conditions in the Japanese stock market after 2007 resulting from the global 2007-2008 credit crisis.

References

Aoki, M., and H. Patrick (eds.), 1994, *The Japanese Main Bank System*, Oxford University Press.

Arikawa, Y., and Y. Mitsusada, 2008, "The Adoption of Poison Pills and Managerial Entrenchment: Evidence from Japan," RIETI Discussion Paper Series 08-E-006.

Becht, M., J. Franks, and J. Grant, 2009, "Shareholder Activism in Europe," London Business School and ECGI working paper.

Becht, M., J. Franks, C. Mayer, and S. Rossi, 2009, "Returns to Shareholder Activism: Evidence from a Clinical Study of the Hermes U.K. Focus Fund, "*Review of Financial Studies* 22, pp. 3093-3129.

Bergloff, E. and E. Perotti, 1994, "The Governance Structure of the Japanese Financial Keiretsu," *Journal of Financial Economics* 36, pp. 259-284.

Business Week, 2007, "Patience Pays for Sparx Group," September 17.

Block, D. J. and J. M. Hoff, 1998, "Recent SEC Amendments and Interpretations to Rules under Section 13(d), " *The New York Law Journal*.

Brav, A., W. Jiang, and H. Kim, 2010, "Hedge Fund Activism: A Review," *Foundations and Trends in Finance* 4:3.

Brav, A., W. Jiang, F. Partnoy, and R. Thomas, 2008, "Hedge Fund Activism, Corporate Governance and Firm Performance," *Journal of Finance* 53, pp. 1729-1775.

Clifford, A., 2008, "Value Creation or Destruction? Hedge Funds as Shareholder Activists," *Journal of Corporate Finance* 14, pp. 323-336.

DeAngelo, H., L. DeAngelo, and D. J. Skinner, 2009, "Coporate Payout Policy," *Foundations and Trends in Finance* 3:2-3.

Financial Times, 2002a, "Biggest Pension Fund Spies an Opportunity in Japan's Ailing Economy," September 24.

Financial Times, 2002b, "Murakami Questions Tokyo Style Voting," May 24.

Financial Times, 2007, "Private Equity Hopes for a Brighter Future in Japan," June 14.

Foley, C. F., and R. Greenwood, 2009, "NEC Electronics," Harvard Business School Case, 5-209-028.

Franks, J., C. Mayer, and H. Miyajima, 2009, "Equity Markets and Institutions: The Case of Japan, " London Business School working paper.

Gillan, S., and L. Starks, 1998, "A Survey of Shareholder Activism: Motivation and Empirical Evidence," *Contemporary Finance Digest* 2, pp. 10-34.

Gillan, S. and L. Starks, 2007, "The Evolution of Shareholder Activism in the United States," *Journal of Applied Corporate Finance* 19, pp. 55-73.

Greenwood, R., R. Khurana, and M. Egawa, 2009, "Aderans," Harvard Business School Case, 9-209-090.

Greenwood, R., and M. Schor, 2009, "Investor Activism and Takeovers," *Journal of Financial Economics* 92, pp. 362-375.

Holderness, C. and D. Sheehan, 1985, "Raiders or saviors? The evidence on six controversial investors", *Journal of Financial Economics* 14, pp. 555

Hoshi, T., and A. Kashyap, 2004, "Japan's Financial Crisis and Economic Stagnation," *Journal of Economic Perspectives* 18, pp. 3-26.

Jacoby, S., 2007, "Convergence by Design: The Case of CalPERS in Japan," *American Journal of Comparative Law* 44, 239-294.

Jensen, M., 1986, "Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers," *American Economic Review* 76, Papers and Proceedings, pp. 323-329.

Karpoff, J., 2001, "The Impact of Shareholder Activism on Target Companies: A Survey of Empirical Findings," University of Washington working paper.

Kim, W., W. Kim, and K. Kwon, 2009, "Value of Shareholder Activism: Evidence from the Switchers," KDI School working paper.

Klein, A., and E. Zur, 2009, "Entrepreneurial Shareholder Activism: Hedge Funds and Other Private Investors," *Journal of Finance* 64, pp. 187-229.

Kubota, K., and H. Takehara, 2007, "Fama-French fakutā moderu no yūkosei no saikentō (A Reexamination of the Effectiveness of the Fama-French Model)," *Gendai Fainansu* (*Contemporary Finance*) 22, pp. 3-23 (in Japanese).

Mikkelson, W. and R. Ruback, 1985, "An Empirical Analysis of the Inter-firm Equity Investment Process", *Journal of Financial Economics* 14, pp. 523-553

Ono, M., 2008, "Akutibisuto fando to kabuka kōka (Activist Funds and their Effects on Stock Prices)," working paper (in Japanese).

Recof, 2000-2009, *MAAR*, various issues.

Reuters, 2009, "Steel Partners Cuts Stakes in Japan Firms by $1.7 Billion," January 16.

Securities and Exchange Commission, 1998, *Effects of Amendments to Regulation 13D-G* (Release No. 34-39538; File No. S7-16-96).

Shleifer, A., and R. Vishny, 1986, "Large Shareholders and Corporate Control," *Journal of Political Economy* 94, pp. 461-488.

The Economist, 2002, "A Clash Over Cash," May 16.

The Economist, 2007, "Message in a Bottle of Sauce", November 29.

The New York Times, 2007, "Murakami Gets Two Years in Jail in Livedoor Scandal," July 19.

Uchida, K., and P. Xu, 2008, "US Barbarians at the Japan Gate: Cross-Border Hedge Fund Activism," Bank of Japan Working Paper Series No 08-E-3.

Weinstein, D., and Y. Yafeh, 1998, "On the Costs of a Bank-Centered Financial System: Evidence from the Changing Main Bank Relations in Japan," *Journal of Finance* 53, pp. 635-672.

Table 1
Descriptive Statistics

Panel A: Events by Activist Investors

The sample consists of 916 activism events (where an institution discloses a position of 5% or greater ownership in a firm) during the period from January 1998 to June 2009. This panel displays the number of events by each of the 34 activist investors. Investors are grouped in terms of: (i) their top management's nationality (foreign vs. Japanese); (ii) their perceived attitude towards management (hostile vs. non-hostile) as reported in press articles; (iii) whether the investor filed an indication of possibly making a "significant proposal" (which became mandatory after January 2007); we use the post-2007 institutional behavior to "fill back" for the earlier period.

	Nationality		Perceived Attitude		Filed a Significant Proposal		Number of Investments by Year												
Investor Name	0=Domestic	1=Foreign	0="Non-hostile"	1="Hostile"	0=No Proposals	1=Proposals	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
Arnhold and S Bleichroeder	0	43	43	0	0	43					2	4	10	4	2	12	8	1	43
Asuka Asset Management	0	7	7	0	0	7									2	5			7
Atlantis	0	77	77	0	77	0		1	2	5	11	13	11	14	11	6		3	77
Brandes	0	34	0	34	0	34					5	2	4	5	5	11	2		34
DKR	0	37	37	0	37	0								9	22	4	2		37
Dalton	0	44	0	44	0	44						1	2	7	23	7	4		44
Effissimo	12	0	0	12	0	12										6	6		12
Fugen Capital	1	0	1	0	1	0											1		1
Harbinger Capital	0	3	0	3	0	3										2	1		3
Harris Associates	0	11	0	11	11	0						2		2	2	4	1		11
Henderson	0	2	2	0	2	0										1	1		2
Ichigo	0	15	15	0	0	15										8	7		15
Liberty Square	0	14	0	14	14	0								3		9	1	1	14
Marathon	0	27	27	0	27	0					6	7	4	5		1	3	1	27
Murakami	64	0	0	64	0	64			2	7	7	2	11	17	18				64
NWQ	0	7	0	7	7	0								1	6				7
OCM	0	27	27	0	0	27							7	9	7	3	1		27
Perry Corp	0	1	0	1	0	1										1			1
SK Capital	1	0	1	0	0	1											1		1
Safe Harbor	0	2	2	0	0	2								1	1				2
Sandringham	13	0	0	13	0	13								7	1	1	4		13
Silchester International	0	50	0	50	0	50	1		5	3	8	1		4	2	14	12		50
Simplex	12	0	12	0	0	12									2	6	2	2	12
Southeastern	0	9	0	9	0	9				2	1	1	1	1		3			9
Sparx	245	0	245	0	0	245		2	1	13	8	17	28	53	62	51	9	1	245
Steel Partners	0	41	0	41	0	41					4	7	21	5	2	2			41
TCIF	0	1	0	1	1	0									1				1
TIAA-CREF	0	5	5	0	5	0										5			5
TZCS	10	0	0	10	10	0						1	4	2		3			10
Taiyo	0	19	19	0	0	19							7	4	3	2	3		19
The SFP Value	0	28	0	28	0	28						1	5	10	8	4			28
Third Avenue	0	10	10	0	10	0								1	3	5	1		10
Trade Winds	0	14	0	14	14	0										10	2	2	14
Wellington	0	30	30	0	30	0				2	4	3	4	4	6	3	4		30
Overall Total	358	558	560	356	246	670	1	3	10	32	56	62	119	168	189	189	76	11	916

Table 1 (Cont.)

Panel B: Events by Targeted Firms

This panel presents the number of firms matched to information in the Nikkei non-financial firms dataset. A total of 759 unique non-financial firms were targeted in 858 events. It also displays events by the exchange (and section) in which the target firm stock is listed at the time of the event. TSE = Tokyo Stock Exchange; OSE = Osaka Stock Exchange; NSE = Nagoya Stock Exchange; FSE = Fukuoka Stock Exchange; SSE = Sapporo Stock Exchange; JASDAQ = Japan Association for Securities Dealers Automated Quotation System; Hercules = Osaka Stock Exchange Hercules Market. If a stock is dually listed, we report the largest exchange in which it is listed. This panel also provides the number of firms targeted by the Nikkei industry group in which they operate.

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total	Nikkei firms (Dec 2008)
No. of Firms Targeted	1	3	10	32	56	62	119	168	189	189	76	11	916	
No. of Firms Targeted Matched to Nikkei	1	3	8	29	56	61	118	159	178	168	68	9	858	
No. of Firms Targeted by Stock Exchange														
TSE 1st section	1		4	13	29	26	60	69	78	93	43	6	422	1,513
TSE 2nd section			3	3	10	5	12	13	18	13	6	1	84	438
OSE 1st section			1		2	2	2	7	8	8	3		33	81
OSE 2nd section						5	8	8	7	5		2	35	205
NSE 1st section													0	7
NSE 2nd section							1	3	1	1	1		7	72
FSE								2					2	23
SSE													0	11
TSE Mothers				3		2	2	2	8	8	3		28	175
NSE Centrex									4	1			5	29
SSE Ambitious										1			1	10
JASDAQ		3		9	12	21	28	48	43	34	8		206	907
Hercules Standard				1	1		4	4	6	3	4		23	72
Hercules Growth					2		1	3	4				10	72
FSE Q													0	8
No. of Firms Targeted by Nikkei Industry Group														
01_Foods				1	3	1	10	8	8	7	1	1	40	146
03_Textile Products				1	4		4	2	1	2	2		16	62
05_Pulp & Paper						1		1		1			3	25
07_Chemicals				1	1	3	13	12	5	9	3		47	208
09_Drugs				1	4	3	5	4	4		1		22	48
11_Petroleum					2								2	13
13_Rubber Products									1				1	23
15_Stone, Clay & Glass Products					1				3		1		5	68
17_Iron & Steel					1		2	2	1	3			9	56
19_Non ferrous Metal & Metal Products			1	1	2	3	5	2	3	9			26	136
21_Machinery				1	1	5	14	15	12	12	7	1	68	253
23_Electric & Electronic Equipment			1	3	4	3	12	16	17	21	7	2	86	306
25_Shipbuilding & Repairing							1	1					2	6
27_Motor Vehicles & Auto Parts					2	1	2	3	1	5			14	80
29_Transportation Equipment					1	1			1				3	14
31_Precision Equipment						1	1	6	6	2	2		18	58
33_Other Manufacturing			2	2	1	4	6	11	6	8	4		44	126
35_Fish & Marine Products							1	1					2	10
37_Mining									1	2			3	8
41_Construction				1	2	1	4	4	4	6	8		30	204
43_Wholesale Trade			1	6	6	6	6	17	24	17	6	1	90	411
45_RetailTrade		1	2	5	8	7	7	10	19	11	2		72	277
53_Real Estate			1	1	1	3	1	3	8	5	5		28	117
55_Railroad Transportation								1					1	28
57_Trucking					1		1	2		2	2	1	9	37
59_Sea Transportation							1						1	18
61_Air Transportation													0	5
63_Warehousing & Harbor Transportation						3	1	2		5	1	1	13	44
65_Communication Services					1	3		3	3	2			12	38
67_Utilities - Electric									1				1	11
69_Utilities - Gas										1			1	13
71_Services	1	2		5	10	12	21	33	49	38	16	2	189	774
Not Matched to Nikkei (Financial firms)	0	0	2	3	0	1	1	9	11	21	8	2	58	

Table 1 (Cont.)

Panel C: Capital Committed and Length of Activist Investments

This panel presents the size of activist stakes in terms of millions of yen (at cost) and as a percentage of the outstanding shares of the target companies. The "Initial Position" represents the stakes that activist investors had at their initial EDINET filing. The "Maximum Position" reports the maximum reported stakes that funds accumulated in the target firms as revealed by subsequent EDINET filing. We also list statistics for the "Length of Holding Period" in number of calendar and trading days of the activist positions.

	Mean	Median	Min	Max
Invested Capital (in Yen milions)				
- Initial Position	7,753	2,078	50	240,922
- Maximum Position	13,444	3,378	73	506,022
Percentage Ownership				
- Initial Position	6.82%	5.41%	2.54%	60.45%
- Maximum Position	9.89%	7.40%	2.54%	87.56%
Length of Holding Period				
- Number of calendar days	791	640	1	3,471
- Number of trading days	533	432	1	2,335

Table 2
Characteristics of Target Companies

This table reports the characteristics of target firms (Panel A), a comparison with the set of industry/size/book-to-market matched firms for each target (Panel B), and with the full set of firms in the same industry as each target firm (Panel C). In each panel, we report the number, mean, median, and standard deviation of the characteristics for the target and matched firms. The last column presents the t-statistics for whether the average of each variable is equal for the target and matched firms. All variables are retrieved from Nikkei Portfolio Master Database for the last fiscal year-end prior to the event year. The sample is limited to non-financial firms. *Size* is Total Value of Assets measured in millions of yen. *MB* is the market-to-book ratio defined as (market value of equity/ book value of equity). *Mktcap* is market capitalization in millions of yen. *Tobin Q* is defined as (book value of debt + market value of equity)/(book value of debt + book value of equity); *Growth* is the growth rate of sales over the previous year; *ROA* is return on assets (net income / total assets); *Past 2-Year Return* is the buy-and-hold return during the 24 months before the announced activism; *Leverage* is the book leverage ratio defined as debt/(debt + book value of equity); *Cash-to-Assets* is defined as (cash + marketable securities)/ total assets; *Dividend / Net Income (2yr avg)* and *Repurchases / Net Income (2yr avg)* is annual dividend and repurchases divided by (2-year average) net income; *Pct Directors*, *Pct Foreigners, Pct Foreigners* and *Pct Individuals* are the % of outstanding shares that are held by directors, foreign investors, financial institutions and individual investors, respectively; *Stock Options Dummy* is 1 if a firm adopts executive stock options, and 0 if not; *Board Committee Flag* is 1 if the company board is based on independent directors and 0 if it is auditor-based; *Pct Outside Directors* is % of independent directors divided by total board size; *Poison Pill* is 1 if the firm has an active takeover defense measure and 0 otherwise; *TSE listed* is a dummy variable that equals one if the firm's stock is listed on the Tokyo Stock Exchange; *Stock Turnover* is share volume divided by adjusted shares outstanding (Datastream items VO/(NOSH/AF)). ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels.

	Panel A - Target Firms				Panel B - Matching Firms (Size, M/B & industry)					Panel C - Matching Firms (only industry)				
	No.	Mean	Median	Stdev	No.	Mean	Median	Stdev	T-Stat Mean Diff (A=B)	No.	Mean	Median	Stdev	T-Stat Mean Diff (A=C)
Size (Assets mln)	856	151,563	39,866	391,174	3,609	154,912	35,185	468,645	-0.191	10,123	137,455	28,307	443,862	0.922
MB	830	2.026	1.328	2.196	3,527	2.108	1.352	2.353	-0.916	9,887	2.411	1.486	2.765	-3.659***
Mktcap	854	113,687	29,795	287,471	3,605	103,449	20,795	358,545	0.781	10,107	111,954	18,916	421,577	0.136
Tobin Q	854	1.594	1.172	1.473	3,605	1.647	1.141	1.677	-0.848	10,107	1.870	1.212	2.093	-3.279***
Growth	777	0.052	0.033	0.198	3,286	0.064	0.039	0.210	-1.563	9,339	0.057	0.036	0.202	-0.82
ROA	851	0.021	0.033	0.140	3,567	0.020	0.025	0.100	0.327	10,034	0.016	0.026	0.124	1.176
Past 2-Year Return	785	(0.001)	(0.012)	0.192	3,171	(0.013)	(0.019)	0.184	1.611	8,989	(0.011)	(0.018)	0.193	1.291
Leverage	856	0.406	0.387	0.213	3,598	0.493	0.503	0.219	-10.516***	10,110	0.468	0.461	0.226	-7.699***
Cash-to-Assets	856	0.196	0.166	0.151	3,598	0.164	0.117	0.154	5.681***	10,110	0.186	0.136	0.168	1.714**
Dividends / Net Income (2yr avg)	856	0.307	0.266	0.498	3,598	0.286	0.261	0.549	1.066	10,108	0.295	0.264	0.573	0.82
Repurchases / Net Income (2yr avg)	856	0.133	0.000	0.414	3,598	0.102	0.000	0.378	-0.372	10,108	0.099	0.000	0.393	-0.282
Pct Directors	854	7.621	0.999	12.263	3,594	6.689	0.571	11.912	2.034**	10,094	6.879	0.680	11.769	1.736**
Pct Foreigners	854	13.185	11.374	11.677	3,594	7.365	2.776	10.665	14.065***	10,094	7.475	2.440	11.157	14.322***
Pct Financials	855	20.243	19.359	14.430	3,592	17.956	15.597	14.964	4.075***	10,101	16.222	13.637	14.489	7.874***
Pct Individuals	855	32.727	29.859	22.564	3,592	33.134	32.154	23.875	-0.432	10,101	32.715	31.886	24.465	0.026
Stock Options Dummy	849	0.465	0.000	0.499	3,578	0.420	0.000	0.494	2.373**	10,060	0.478	0.000	0.500	-0.682
Board Committee Flag	737	0.016	0.000	0.127	3,110	0.021	0.000	0.144	-0.856	8,849	0.021	0.000	0.145	-0.938
Pct Outside Directors	737	0.075	0.000	0.131	3,110	0.082	0.000	0.132	-1.217	8,849	0.089	0.000	0.141	-2.625***
Poison Pill	856	0.039	0.000	0.193	3,609	0.023	0.000	0.151	2.463**	10,123	0.025	0.000	0.155	2.363**
TSE listed	854	0.623	1.000	0.485	3,600	0.631	1.000	0.483	-0.414	10,098	0.608	1.000	0.488	0.881
Stock Turnover	623	1.337	0.420	12.470	2,700	0.782	0.390	1.284	2.262**	7,486	1.763	0.371	48.801	-0.216

Table 3
Probit Analysis: Which Firms Get Targeted?

This table reports the characteristics of firms associated with the probability of being targeted by an activist investor. The dependent variable is 1 if an activist fund targeted the firm and 0 if the firm is an industry/size/book-to-market matched company (Panel A) or only industry-matched company (Panel B). All explanatory variables are defined in the caption of Table 2. The sample is limited to non-financial firms. We report probit coefficients, Z-statistics, and the marginal probability change induced by a one-standard deviation change in the values of the explanatory variable from their respective sample averages. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels.

Dependent variable: Dummy of Being Targeted = 1

	Panel A - Matching by size, M/B & industry								Panel B - Matching only by industry							
	Coefficient	Z	p-value	Marg. Prob.	Coefficient	Z	p-value	Marg. Prob.	Coefficient	Z	p-value	Marg. Prob.	Coefficient	Z	p-value	Marg. Prob.
Mktcap (log)	-0.0112	-0.45	0.66	-0.29%	0.0255	0.83	0.41	0.64%	-0.0178	-0.92	0.36	-0.23%	0.0222	0.94	0.35	0.28%
Tobin Q	-0.0506	-2.11**	0.04	-1.30%	-0.0769	-2.68***	0.01	-1.92%	-0.0668	-3.28***	0.00	-0.88%	-0.0843	-3.34***	0.00	-1.07%
Growth	-0.1938	-1.47	0.14	-4.97%	-0.2919	-1.86**	0.06	-7.29%	0.0157	0.15	0.88	0.21%	-0.1161	-0.9	0.37	-1.48%
ROA	-0.4609	-2.2**	0.03	-11.81%	-0.3825	-1.51	0.13	-9.56%	-0.3667	-2.34**	0.02	-4.81%	-0.3208	-1.71**	0.09	-4.08%
Past 2-Year Return	0.1933	1.48	0.14	4.95%	0.1933	1.08	0.28	4.83%	0.1152	1.12	0.27	1.51%	0.1080	0.79	0.43	1.37%
Leverage	-0.8697	-6.58***	0.00	-22.29%	-0.8233	-5.17***	0.00	-20.57%	-0.6782	-6.38***	0.00	-8.89%	-0.5714	-4.46***	0.00	-7.27%
Cash-to-Assets	0.8040	3.81***	0.00	20.60%	0.6694	2.63***	0.01	16.73%	0.2433	1.54	0.12	3.19%	0.2000	1.04	0.30	2.54%
Dividends / Net Income (2yr avg)	0.0021	0.29	0.77	0.05%	0.0022	0.27	0.79	0.05%	-0.0004	-0.09	0.93	0.00%	-0.0004	-0.09	0.93	0.00%
Repurchases / Net Income (2yr avg)	-0.0289	-0.89	0.37	-0.74%	-0.0328	-0.94	0.35	-0.82%	-0.0110	-0.72	0.47	-0.14%	-0.0071	-0.48	0.63	-0.09%
Pct Directors	0.0052	1.74**	0.08	0.13%	0.0047	1.31	0.19	0.12%	0.0040	1.71**	0.09	0.05%	0.0035	1.23	0.22	0.04%
Pct Foreigners	0.0246	9.9***	0.00	0.63%	0.0214	7.36***	0.00	0.53%	0.0161	8.82***	0.00	0.21%	0.0140	6.34***	0.00	0.18%
Pct Financials	0.0046	2.09**	0.04	0.12%	-0.0006	-0.21	0.83	-0.01%	0.0081	4.59***	0.00	0.11%	0.0034	1.51	0.13	0.04%
Pct Individuals	-0.0022	-1.37	0.17	-0.06%	-0.0024	-1.26	0.21	-0.06%	-0.0029	-2.31**	0.02	-0.04%	-0.0036	-2.38**	0.02	-0.05%
Stock Options Dummy	0.0793	1.51	0.13	2.05%	0.0187	0.29	0.77	0.47%	-0.0108	-0.26	0.80	-0.14%	-0.0179	-0.35	0.72	-0.23%
Pct Outside Directors					-0.4069	-1.74**	0.08	-10.17%					-0.3548	-1.96**	0.05	-4.51%
Poison Pill	0.1499	1.13	0.26	4.09%	0.1224	0.78	0.43	3.23%	0.1013	0.98	0.33	1.43%	0.0804	0.67	0.51	1.08%
TSE listed	-0.1239	-2.02**	0.04	-3.24%	-0.1406	-1.89**	0.06	-3.59%	-0.0993	-2.08**	0.04	-1.33%	-0.1157	-1.99**	0.05	-1.51%
Stock Turnover					0.0624	2.98***	0.00	1.56%					0.0008	0.38	0.71	0.01%
Constant	-0.6686	-2.52**	0.01		-0.8840	-2.74***	0.01		-1.0684	-5.24***	0.00		-1.3327	-5.39***	0.00	
No. of Observations	3825				2710				9534				6728			
Pseudo R2	8.2%				7.2%				5.2%				4.5%			
Percent Targeted	19.2%				18.2%				7.7%				7.3%			

Table 4
Short-Run Event Returns

This table reports the average Buy-and-Hold Abnormal Return (BHAR) in excess of the buy-and-hold return of the Nikkei Sogo Comprehensive Index in the (-5, +5) trading days event window around the filing date in EDINET that an activist investor had a position exceeding 5% of outstanding shares in a target firm. In Panel A, events are displayed by Investor Type: (i) perceived attitude towards management as reported in press articles (hostile vs. non-hostile); (ii) whether the investor filed an indication of possibly making a "significant proposal" (which became mandatory only after January 2007); (iii) whether the investor post-2007 ever filed an indication of making a "significant proposal" to "fill back" for the earlier period; (iv) the nationality of activist investors (foreign vs. Japan-based); (v) selected top activist funds. Table 1 - Panel A provides the classification for each of the 34 investors in our sample. Panel B presents events by *ex post* outcome (not known at announcement date): (i) whether the event stock underwent significant structural changes based on corporate action event filings; (ii) whether the target firm resisted by adopting a poison pill takeover defense or not. Panel C provides a "Placebo Test" of whether activist filings are significant by looking at 5% filings by non-activist institutional investors. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels.

	No.	Average BHAR (-5, +5)	p-value
All Events	864	1.79%***	0.0%
Panel A - By Investor Type			
Based on Press Reports			
- "Hostile"	341	3.83%***	0.0%
- "Non-Hostile"	523	0.46%	28.5%
Type of Filing			
- Events with a "Significant Proposal" filing (only after 2007)	162	2.64%***	0.0%
- All other events	702	1.60%***	0.0%
Using Filing and Looking Back			
- Investors that file "Significant Proposal" after 2007	653	2.32%***	0.0%
- Investors that DO NOT file "Significant Proposal" after 2007	211	0.16%	86.7%
Nationaility of Investor			
- Foreign Activist fund	518	1.67%***	0.0%
- Domestic Activist fund	346	2.00%***	0.0%
Top Activist Funds			
- Steel Partners (foreign, hostile)	41	7.90%***	0.0%
- Murakami (domestic, hostile)	60	6.52%***	0.0%
- Taiyo (foreign, non-hostile)	19	3.67%**	3.7%
- Sparx (domestic, non-hostile)	232	0.88%	13.3%
Panel B - By Outcome (Ex-Post):			
Structural Changes (Based on Corporate Action Events)			
- Target Firm had no subsequent corporate events	645	1.75%***	0.0%
- Target firm was delisted	43	2.28%	10.6%
- Target firm had other corporate events	183	1.88%***	0.3%
Poison Pill Adoption by Target Firm			
- Firms that never adopted defense	671	1.80%***	0.0%
- Firms that introduced defense while activist had position	89	3.28%***	0.0%
- Firms had defense before activist inititated position	42	1.49%	43.7%
- Firms had defense only after activist terminated position	62	-0.23%	81.7%
Panel C - "Placebo Test"			
5% Filings by Non-Activist Institutional Investors	2686	0.06%	73.6%

Table 5
Long-Run Event Returns

This table reports statistics on long-term abnormal returns associated with hedge fund activism. Panel A reports the average total deal holding-period raw and abnormal buy-and-hold abnormal returns (BHAR) following activist engagements. Buy-and-hold returns are computed beginning on the day of the announced activism through the day on which the funds exit. Exit is defined as the first EDINET filing below 6%. If no exit information was available, we assumed that the holding lasted until the end of the sample period (June 2009). Panel B reports the Calendar Time Portfolio returns (CTPR). These regression estimates and t-statistics are from equal- and value-weighted CTPR regressions. "Alpha" is the estimate of the regression intercept from the factor models. "Betas" are the factor loadings on: the market excess return - Beta (Market), the Size factor - Beta (SMB) and the Value factor - Beta (HML). The monthly factor returns for Japan are obtained from Nikkei, based on Kubota and Takehara (2007). Both Panels A and B show the results separately for events involving "hostile" and "non-hostile" funds (see Table 1 - Panel A for the classification). ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels.

Panel A: Buy-and-Hold Abnormal Returns (BHAR)

	No.	BHR raw returns	BHAR net of Nikkei	BHR raw returns (annualized)	BHAR net of Nikkei (annualized)
All Deals	908	-2.44%	4.57%	-3.80%	1.39%
By Investor Type:					
- "Hostile"	354	3.98%	13.48%	-1.44%	6.58%
- "Non-Hostile"	554	-6.53%	-1.14%	-5.30%	-1.93%

Panel B: Calendar Time Portfolio Returns (CTPR)

Equally-Weighted Portfolio (EW) monthly returns

	All Deals		"Hostile" Funds		"Non-Hostile" Funds	
	coefficient	t-statistic	coefficient	t-statistic	coefficient	t-statistic
Alpha	0.002	1.01	0.008	3.15***	-0.002	-0.70
Beta (Market)	1.042	22.60***	0.911	19.35***	1.179	17.88***
Beta (SMB)	0.913	10.53***	0.687	7.75***	1.109	8.94***
Beta (HML)	0.379	4.05***	0.267	2.80***	0.489	3.66***
Adjusted R-squared	86%		81%		79%	
No. of observations	96		96		96	

Value-Weighted Portfolio (VW) monthly returns

	All Deals		"Hostile" Funds		"Non-Hostile" Funds	
	coefficient	t-statistic	coefficient	t-statistic	coefficient	t-statistic
Alpha	0.010	4.84***	0.012	5.03***	0.006	1.65
Beta (Market)	0.801	20.33***	0.773	17.82***	0.867	12.83***
Beta (SMB)	0.177	2.39**	0.107	1.31	0.298	2.34**
Beta (HML)	0.160	2.01**	0.187	2.13**	0.121	0.88
Adjusted R-squared	82%		88%		80%	
No. of observations	96		96		96	

Table 6
Outcomes of Activism

Panel A reports outcomes of "significant proposals" as determined by searches in newspapers and magazines. Success was determined based on whether the activist funds' proposed goal was achieved. The sample is restricted to a set of 234 proposals made by 88 firms, found in the news search. In Panel B, events are displayed by whether the event target firm underwent significant structural changes, determined *ex post* based on subsequent corporate action event filings on the target firm (but not known at the announcement date). Data on filings of corporate restructuring were obtained from Nikkei Financial Quest.

.

Panel A - Significant Proposals	No. of Proposals	No. of Successes	% Success
General Requests			
Firm Should Pursue Strategic Alternatives	22	5	23%
Improvement of Valuation	11	2	18%
Improvement of Information Disclosure	5	1	20%
Major Reorganizations and Operational Changes			
Merger, Acquisition or Alliance	17	5	29%
Asset Sale	11	0	0%
Going Private (MBO)	10	4	40%
Target to Do Take-Over-Bid (TOB)	7	1	14%
Dissenting to a Merger	3	0	0%
Dissenting to Target's TOB	1	0	0%
Capital Structure			
Dividend Increase	35	15	43%
Stock Repurchase	35	24	69%
Changing Capital Structure (incl. canceling cross shareholdings)	13	6	46%
Firm Should Buyback Fund's Stock (greenmail)	4	1	25%
Governance			
Changing Outside Directors' Composition	12	7	58%
Introduction of Executive Stock Options	12	7	58%
Other Proxy Fights	8	2	25%
Replacing the CEO	8	2	25%
Dissenting to the Adoption of Takeover Defense Measures	5	1	20%
Changing the Charter	2	1	50%
Dissenting to Changing Charter	2	0	0%
Others	11	4	36%
Total No. of Proposals	234	88	38%
Total No. of Firms	88	55	63%

Panel B - Structural Changes	No. of Events	% of Firms Targeted
Structural Changes (Based on Corporate Action Events)		
Target firm was delisted	35	4%
Target firm aquired another firm	149	19%
Target firm sold a part of the firms	72	9%
Target firm acquired a part of another firm	13	2%
Total No. of Corporate Action Events	269	34%
Total No. of Firms Targeted	786	

Table 7
Target Firm Performance Before and After Activism

This table reports statistics of target company performance versus industry/size/book-to-market matched companies in the two years before (Year = -2) and the two years after (Year = +2) being targeted by activist funds. Event Year is the time of first filing of a 5% or greater stake by an activist. All variables are defined in the caption of Table 2. In the last column of each sub-panel ("T-Test diff") , we report t-statistics on whether the average of each variable is equal for target and matched firms for each year. In the last row of each sub-panel ("T-test (y+2) = (y-2)"), we report the t-statistics for whether the average of each variable is equal for the two years before versus the two years after being targeted by activist funds both for target and matched firms. The cell in the southeast corner of each sub-panel presents the t-statistic for the "difference-in-difference" between target and matched firms in the two years before versus the two years after the activism event. ***, **, and * indicate statistical significance at the 1%, 5% ,and 10% levels.

Panel A: Changes in Operational Performance

A.1 - Return on Assets (ROA)

	Targets		Matching Firms		T-Test
Year	No.	Mean	No.	Mean	diff
-2	721	0.02	3080	0.01	1.11
-1	779	0.02	3320	0.02	1.29
Event	853	0.02	3577	0.02	0.33
+1	834	0.01	3497	0.01	0.05
+2	744	-0.01	3089	0.00	-1.26
(+2)=(-2)		-2.59***		-2.12**	-1.80*

A.2 - Sales Growth (Growth)

	Targets		Matching Firms		T-Test
Year	No.	Mean	No.	Mean	diff
-2	678	0.05	2771	0.03	1.80*
-1	719	0.06	3074	0.05	1.23
Event	779	0.05	3296	0.07	-1.56
+1	821	0.05	3450	0.06	-1.61
+2	738	0.04	3072	0.05	-0.76
(+2)=(-2)		-0.92		3.53***	-2.40**

Panel B: Financial and Payout Policy

B.1 - Leverage

	Targets		Matching Firms		T-Test
Year	No.	Mean	No.	Mean	diff
-2	729	0.42	3103	0.51	-9.25***
-1	783	0.41	3351	0.50	-10.25***
Event	858	0.41	3608	0.49	-10.52***
+1	840	0.40	3512	0.49	-9.96***
+2	749	0.40	3099	0.48	-9.24***
(+2)=(-2)		-5.18***		-6.00***	-1.41

B.2 - Cash to Assets

	Targets		Matching Firms		T-Test
Year	No.	Mean	No.	Mean	diff
-2	729	0.20	3103	0.16	6.82***
-1	783	0.20	3351	0.16	5.98***
Event	858	0.20	3608	0.16	5.68***
+1	840	0.18	3512	0.15	4.79***
+2	749	0.17	3099	0.15	4.10***
(+2)=(-2)		-10.08***		-13.38***	-3.22***

B.3 - Dividends / Net Income

	Targets		Matching Firms		T-Test
Year	No.	Mean	No.	Mean	diff
-2	729	0.27	3103	0.24	1.39
-1	783	0.29	3351	0.29	-0.34
Event	858	0.31	3608	0.29	1.06
+1	840	0.30	3512	0.30	0.04
+2	749	0.40	3099	0.31	3.16***
(+2)=(-2)		4.26***		4.11***	1.76*

B.4 - Repurchases / Net Income

	Targets		Matching Firms		T-Test
Year	No.	Mean	No.	Mean	diff
-2	729	0.08	3103	0.07	0.43
-1	783	0.09	3351	0.07	1.35
Event	858	0.13	3608	0.10	2.10*
+1	840	0.15	3512	0.09	4.74***
+2	749	0.19	3099	0.13	3.08***
(+2)=(-2)		4.73***		5.64***	3.03***

Panel C: Governance and Ownership

C.1 - Use of Executive Stock Options Plans

	Targets		Matching Firms		T-Test
Year	No.	Mean	No.	Mean	diff
-2	678	0.40	2895	0.36	2.09**
-1	769	0.43	3286	0.39	1.90**
Event	851	0.47	3588	0.42	2.37**
+1	838	0.47	3498	0.43	2.40**
+2	747	0.48	3093	0.43	2.44**
(+2)=(-2)		3.40***		6.63***	0.65

C.2 - Board Independence (% Outsiders)

	Targets		Matching Firms		T-Test
Year	No.	Mean	No.	Mean	diff
-2	459	0.05	1972	0.07	-2.69***
-1	610	0.06	2645	0.07	-2.73***
Event	739	0.08	3118	0.08	-1.22
+1	752	0.09	3177	0.09	-0.46
+2	697	0.09	2933	0.09	0.07
(+2)=(-2)		8.46***		11.97***	2.58***

C.3 - Adoption of "Committee" Board

	Targets		Matching Firms		T-Test
Year	No.	Mean	No.	Mean	diff
-2	459	0.01	1972	0.02	-1.89*
-1	610	0.01	2645	0.02	-1.52
Event	739	0.02	3118	0.02	-0.86
+1	752	0.02	3177	0.02	-0.83
+2	697	0.02	2933	0.02	0.06
(+2)=(-2)		2.25**		1.51	2.02**

C.4 - Percentage Held by Foreigners

	Targets		Matching Firms		T-Test
Year	No.	Mean	No.	Mean	diff
-2	729	10.69	3101	6.30	10.45***
-1	783	11.92	3345	6.94	11.79***
Event	856	13.16	3604	7.36	14.07***
+1	840	15.21	3512	7.72	17.70***
+2	749	14.72	3099	7.81	15.32***
(+2)=(-2)		15.80***		20.25***	9.98***

C.5 - Poison Pill Adoption

	Targets		Matching Firms		T-Test
Year	No.	Mean	No.	Mean	diff
-2	729	0.00	3104	0.00	-0.15
-1	783	0.01	3355	0.01	1.39
Event	858	0.04	3619	0.02	2.46**
+1	840	0.08	3515	0.05	2.73***
+2	749	0.11	3099	0.08	3.06***
(+2)=(-2)		9.64***		15.69***	3.41***

Table 8: Adoption of "Poison Pills" as a Reaction to Investor Activism

This table describes the adoption by Japanese firms of "poison pill" takeover defense measures. The data source is *MARR/*Recof. Panel A describes the adoption of defense measures by all firms in Japan per year. Defense measures are displayed by type: i) a "prior warning" that the firm will issue new stock reservation rights if the acquirer breaches a rule; ii) "trust-type rights plan" which involves the actual issuance of new stock reservation rights in advance to a trust bank; iii) other. "Poison pills" are also broken down by trigger level the acquirer has to reach for defense to be activated. Panel B analyses the timing of the adoption of takeover defense measures by the sample of firms targeted by activist investors in our paper.

Panel A - Number of Adoptions of "Poison Pills" by ALL Firms

			2004	2005	2006	2007	2008	2009	Total
- By Type:	. Type 1 = Prior Warning	. BOD meeting decision		18	71	26		1	116
		. SH mtg approval		2	61	155	77	9	304
		. SH mtg approval with changing charter			13	56	96	8	173
	. Type 2 = Trust-Type Rights Plan	. BOD meeting decision							0
		. SH mtg approval		5	5				10
		. SH mtg approval with changing charter				1			1
	. Type 3 = Others	. BOD meeting decision		2					2
		. SH mtg approval		1					1
		. SH mtg approval with changing charter	2			1			3
			2	28	150	239	173	18	610
- By Trigger Level:		. 15%			8	5			13
		. 20%	1	25	139	227	171	17	580
		. 25%		1	2	5		1	9
		. 30%			1	1	2		4
		. n.a.	1	2		1			4
			2	28	150	239	173	18	610

Panel B - Number of Adoptions of "Poison Pills" by Firms TARGETED by Activist Investors

- in Calendar Time	≤ 2004	2005	2006	2007	2008	2009	Total
No. of targeted firms (no repetitions)	259	146	161	132	55	6	759
No. of targeted firms that adopted "poison pills"	0	14	55	61	34	6	170

-in Event Time (T = year that firm was first targeted by activist)	T-3	T-2	T-1	T	T+1	T+2	T+3	T+4 or more	Total
No. of targeted firms that adopted "poison pills"	3	12	25	36	24	30	18	22	170

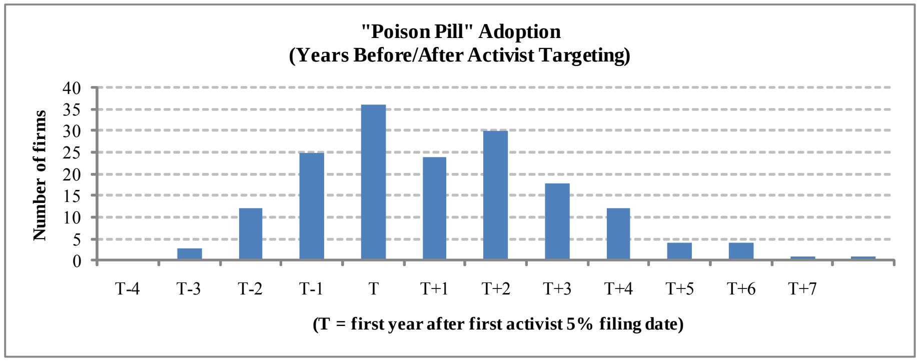


Figure 1: Evolution of Ownership in Japan

This figure describes the evolution of ownership of stocks listed in the Tokyo Stock Exchange during the period from 1986 to 2008. Investor categories (from bottom to top in the graph) are: Banks (City and Regional), Trust Banks, Pension and Mutual Funds, Life Insurance, Casualty Insurance, Other Financial Institutions, Securities Houses, Corporations, Foreigners and Individuals and others. The data source is the Tokyo Stock Exchange.

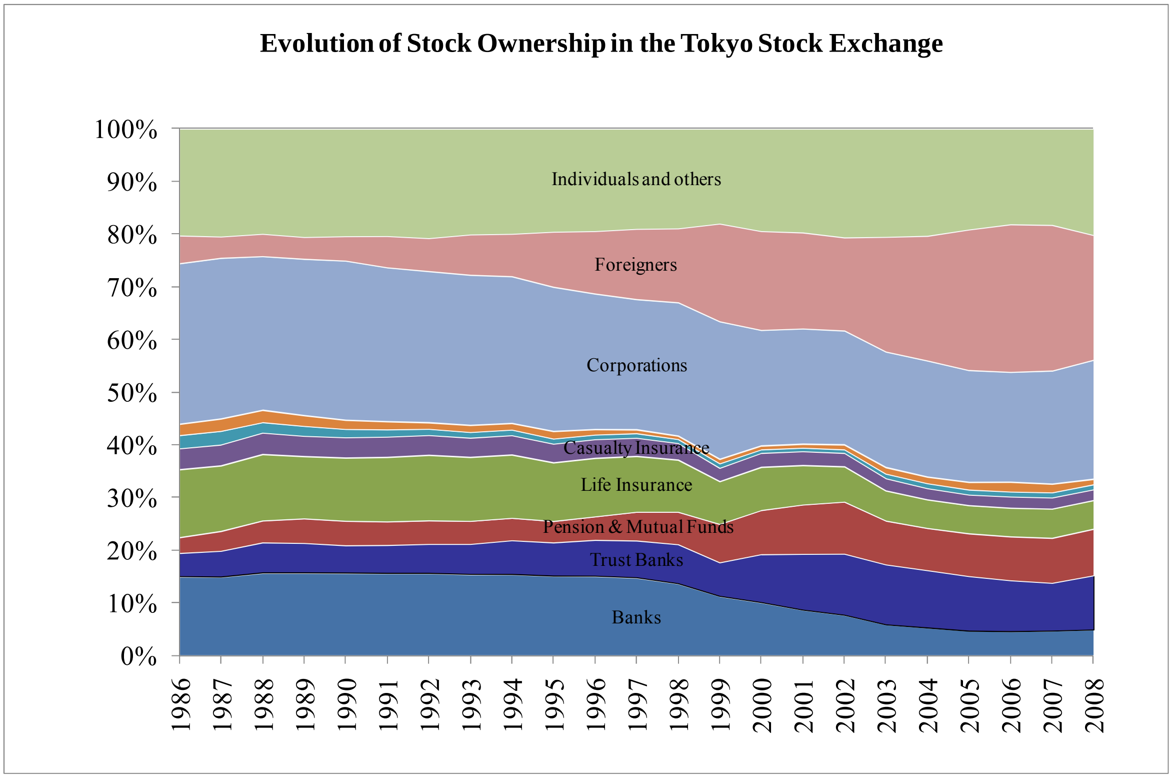


Figure 2: Timing and Duration of Activist Investments

This figure reports the timing and length of the 916 portfolio investments by "activist" investors in our sample.

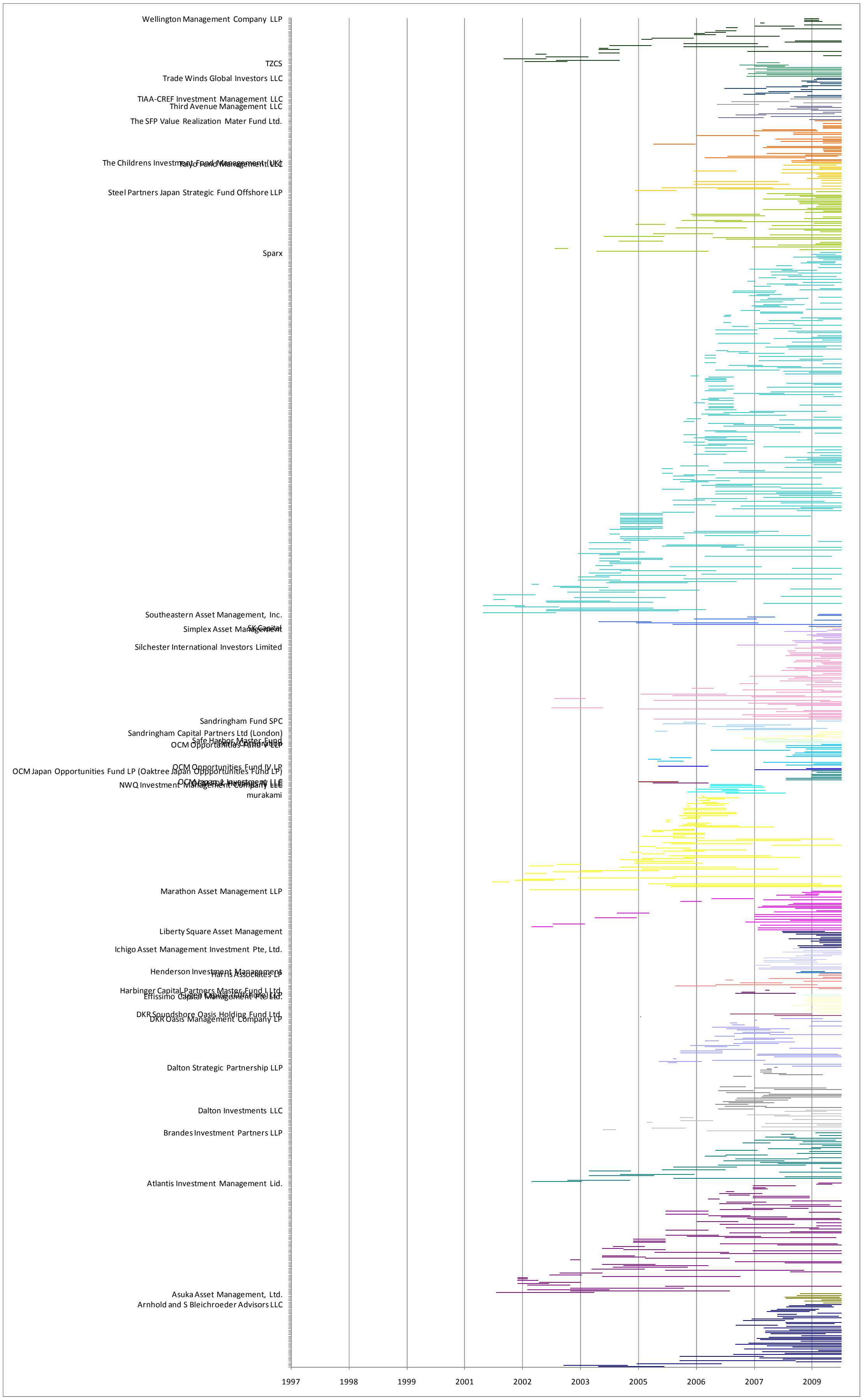


Figure 3: Short-Run Returns Around the Filing of a 5% or Greater Holding

The line in blue presents the Average Buy-and-Hold return (BHAR) for each trading day around the disclosure filing. Time 0 in this graph corresponds to the filing date that an activist investor has a position exceeding 5% of outstanding shares in a firm. The line plots the Average Buy-and-Hold return in excess of the Buy-and-Hold Return of the Nikkei Sogo (Comprehensive) Index. The bars in red represent the average abnormal turnover in the event stocks. This is calculated by average daily stock trading volume divided by average in the preceding (-100, -40) trading days.

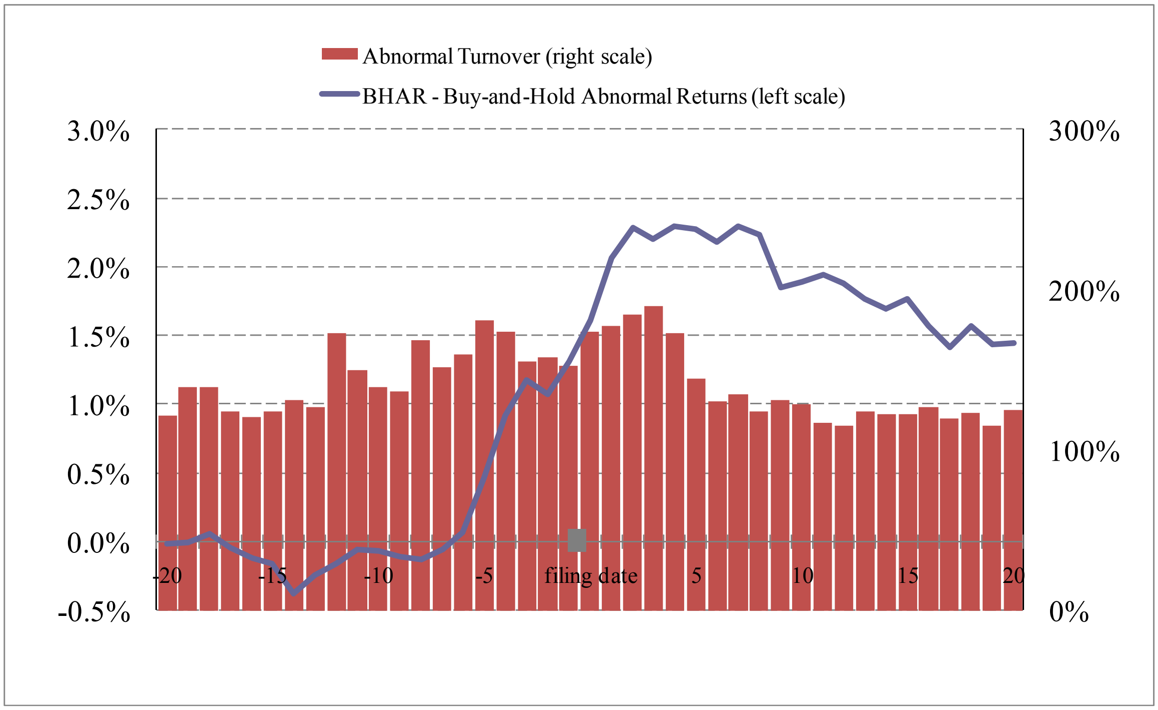


Figure 4: Long-Run Returns – Calendar Time Portfolios

Panel A presents the EW (Equal-Weighted) portfolio of event firms, a portfolio formed by being long in equal amount on all open positions by all activist funds in targeted stocks in our sample. Each day, we add a position in a firm when there is a filing disclosing in EDINET that a position by an activist investor exceeds 5% of outstanding shares in the firm. The position is terminated if it falls below 6%. The portfolio is formed by equal weights in all event stocks. To track EW portfolio performance, we take the normalized index equal to 100 on July 1, 2007 (the first time there were simultaneously 10 activism engagements). We update it using *CTPR EW index (t) = index(t-1) × (1 + avg(RET(t))* where avg(RET(t)) = equally-weighted average of firms with at least one activist position >0. Panel B presents the VW (Value-Weighted) portfolio of event firms which is a portfolio that is long on all targeted stocks with weights in proportion to yen position by activist funds in each firm. The yen positions are calculated by multiplying *(% held by activist) × (Market Cap of firm)*. We add a position when there is a filing disclosing in EDINET that a position exceeds 5% of outstanding shares in firm. The position is rebalanced up or down any time the institution subsequently revises the disclosed level of ownership. The position is terminated if it falls below 6%. We track the VW portfolio performance by the yen position in each stock times the total return of that stock each day. The plot also contains contemporaneous performance of NIKKEI Sogo (Comprehensive) Index (in red), TOPIX (in orange), Russell Nomura Small Cap (dark green) and Russell Nomura Small Value (bright green). The shaded bars represent the number of target events in the portfolio in each day.

Panel A - EW (Equal - Weighted) Portfolio of Activist Event Firms

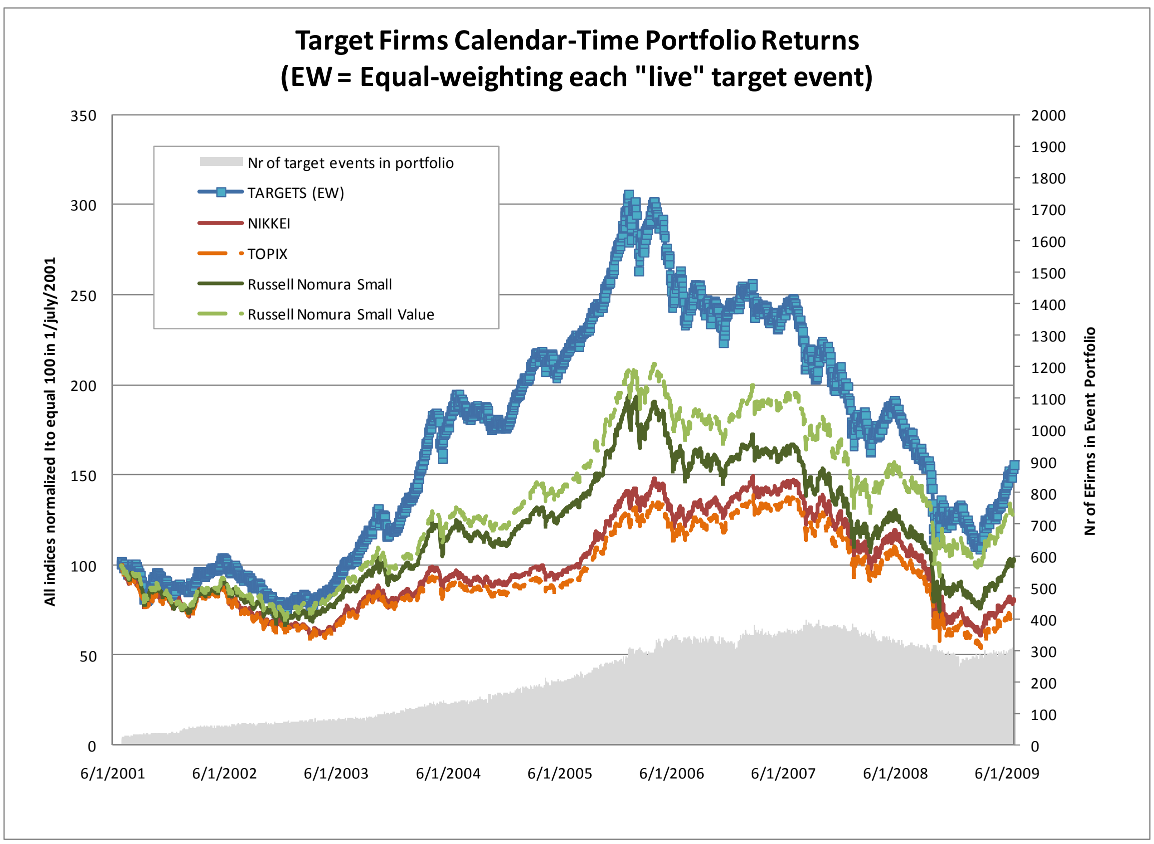
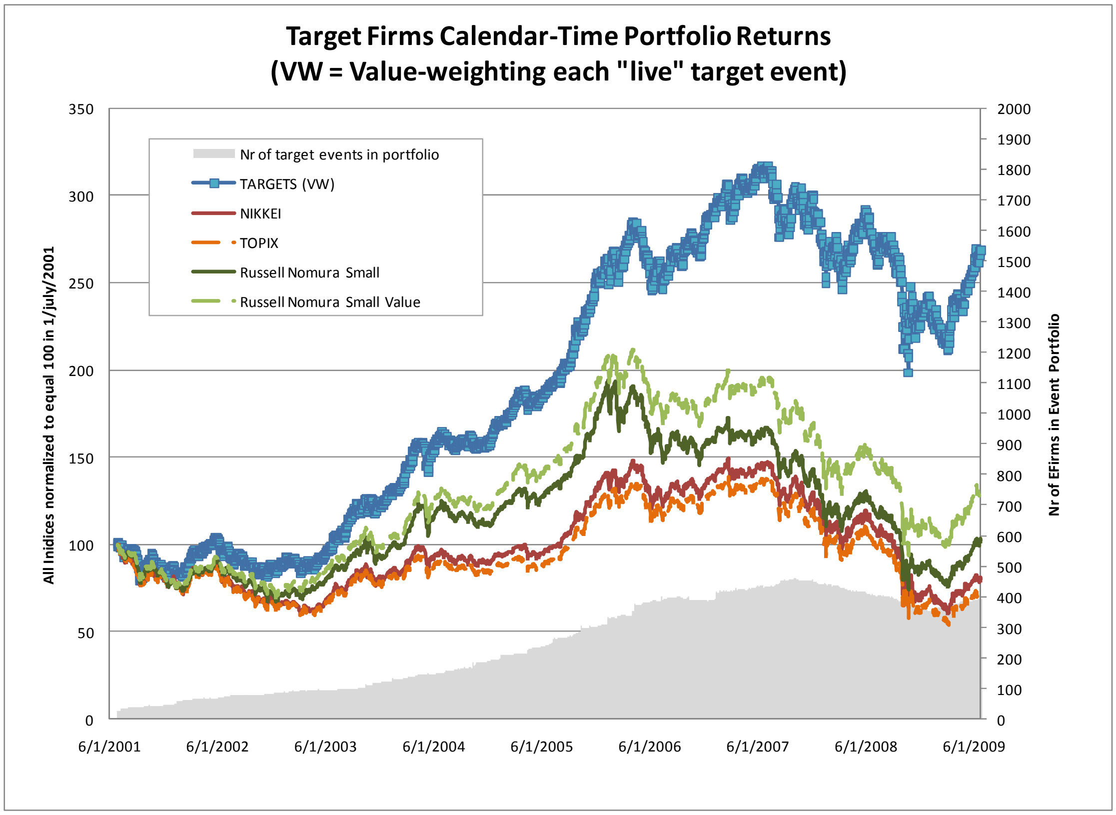


Figure 4: (Cont.)

Panel B - VW (Value-Weighted) Portfolio of Activist Event Firms



Appendix A
U.S. vs. Japan - Comparison of Corporate Governance

This table is based on Greenwood *et al*. (2009), revised by the authors.

Principle	U.S.	Japan
Ownership Structure	• Typical corporation is widely held. Largest shareholders are often institutional investors.	• Historically, ownership more concentrated, with banks collectively owning a large proportion. Cross-ownership used as an anti-takeover defense. • Cross-shareholdings fell and foreign institutional ownership significantly increased during 1990s and 2000s after the economic and banking crises.
Bank Involvement	• Limited/None. Banks rarely hold equity positions in companies in their loan portfolios.	• Banks were principal source of funding for many public companies before 1990 and banks involved in most major corporate decisions.
Board Members	• NYSE and NASDAQ listing rules require companies to have a majority of independent directors. • Exemptions are available if a listed company is a controlled company, provided that public disclosure is made. This exemption does not apply to audit committees.	• Majority of companies are in the "auditor-system." Typically directors are all affiliated to the company. Recently, companies of this type are also appointing independent directors. Companies must have more than 3 auditors, of which a majority should be independent. • After April 2003, companies can move to "committee system" in which case these must have independent directors (*shagai torishimariyaku*) who constitute a majority in each of the nomination, audit and compensation committees.
Fiduciary Duties	• Duty of care: Duty to act on an informed basis. • Duty of loyalty: Duty to act with honest faith that actions are in the best interests of the company's shareholders. • Business judgment rule: Rebuttable presumption that directors acted in accordance with their duties unless director's action is proved to lack rational purpose or constitute waste.	• *Zenkan chuui gimu*: Directors must manage the company's affairs with due care and diligence. • *Chuujitsu gimu*: Directors must obey all laws and ordinances, the company's organizational documents and resolutions, and must act in good faith on behalf of the company.
Minority Squeeze Outs	• High level of legal scrutiny. Controlling shareholder has to prove that the squeeze-out is entirely fair to all shareholders.	• No duties of controlling shareholders. • Appraisal rights generally available to dissenting shareholders.
Related Party Transactions	• All transactions subject to court scrutiny. • Controlling shareholder must prove fairness of self dealing transactions.	• Related party transactions are subject to the approval by shareholders meeting or the board. • Related party transactions must be disclosed and are subject to audit.
Poison Pills and Other Shareholder Rights Plans	• "Poison pills" broadly describes takeover defenses that involve the target taking some action that harms both target and bidder. • Invented during the early 1980's as a response to tender-based hostile takeovers. • Upheld as a valid instrument of Delaware corporate law in 1985 decision. • Still used repeatedly in the U.S., although shareholders typically vote against new adoption of these plans.	• Court decisions in 2006 and 2007 paved the way to many companies adopting "poison pill" defense measures. • By 2009, over 600 of listed companies have adopted "poison pill" plans. • Ministry of Economy, Trade and Industry and Ministry of Justice together prepared guideline for shareholder rights plans (May 27, 2005).

Appendix B: U.S. vs. Japan - Comparison of the Legal Environment for Shareholder Activism

The information on the U.S. was obtained from Becht *et al.* (2009) and the information for Japan from articles of the Companies Act.

	U.S.	Japan
Shareholder powers		
Ordinary general meetings	Under Delaware Corporate Law, Subchapter VII, (2) (b) annual meetings deal with the election of directors and are called as set out in the bylaws.	Under Article 105 of the Companies Act, a shareholder possesses the right to cast a vote at shareholders meetings. Election and dismissal of officers are voted in shareholders meetings.
Special general meetings	Special meetings can be called under Delaware Corporation Law, Subchapter VII, (2) (d), but shareholders cannot call these meetings, unless the certificate of incorporation or the bylaws state otherwise. Thus, company's bylaws can deprive the shareholder of the right to call special meetings.	Article 296 (2) of the Companies Act: Special meetings can be called whenever necessary. Article 297: Shareholders having 3% or more of the votes of all shareholders (for at least the preceding 6 months) may demand that directors call a shareholders meeting, by showing the matters which shall be the purpose of the shareholders meeting.
Shareholder proposals	Shareholders can ask the company to add proposals to the company proxy under SEC Rule 14a-8, but this excludes all issues relating to elections; in general, proposals receiving a majority of votes under this rule are not binding on the board; the cost is borne by the company. Shareholder proposals can be made under SEC Regulation 14A via a full proxy solicitation; the cost of the solicitation is borne by the shareholder.	Article 303 (1) of the Companies Act: Only shareholders having 1% or more of the votes of all shareholders may demand that directors include certain matters in the agenda of the shareholders meeting. In such cases, that demand shall be submitted no later than 8 weeks prior to the day of the shareholders meeting.
Appointment/removal of directors		
Through board election	The voting rules set out in state law apply; in practice, these are determined by the bylaws; under Delaware Law, by default plurality voting applies; this means that the votes in favor are counted for each candidate; the candidates who receive most votes (not necessarily a majority of the votes attending) win; in a hostile vote, if there are say six candidates for three board positions to be filled, the candidates with the three highest vote counts win.	Article 341 of the Companies Act: The election or dismissal of officers shall be made by the majority (in cases where a higher proportion is provided for in the articles of incorporation, then such proportion or more) of the votes of the shareholders present at the meeting.
By other means	Under Delaware Corporation Law, Subchapter VII, (2) (b) shareholders can appoint directors (remove the board) by written consent, but this decision must be unanimous (a director holding one share could refuse to sign) and the bylaws can state otherwise.	Shareholders with 3% or more of the votes may sue the firm and the officers.
Tenure	Under Delaware Law, it is possible to stagger the terms of directors, ensuring that only one-third come up for election each year.	Article 332 (1) of the Companies Act: Directors' terms of office is 2 years or shorter if voted out by a resolution at the shareholders meeting. For companies under a "Committee system", the term is 1 year.
Restrictions on voting concentration	Under Delaware Law, it is possible to issue shareholder rights plans ("poison pills") that limit the ability of shareholders to concentrate voting power beyond certain thresholds, typically 10% –15%; there is no mandatory bid requirement.	"Poison pills" can be implemented by rights offerings. Article 127-2-2 of the Ordinance for Enforcement of the Companies Act requires issuers to disclose such intension in their Business Report ("prior warning" type of takeover defense measure).

Appendix C
U.S. vs. Japan - Comparison of the Disclosure Rules Regarding Large Block Holdings

The information on the U.S. is based on Block and Hoff (1998) and Securities and Exchange Commission (1998).

	U.S.		Japan			
	Schedule 13D ("active")	Schedule 13G ("passive")	Standard Reporting		Special Reporting Provision	
			Until December 31, 2006	From January 1, 2007	Until December 31, 2006	From January 1, 2007
Related Law	Section 13(d) of the Securities and Exchange Act of 1934	Section 13(g) of the Securities and Exchange Act of 1934.	Article 27 of the Securities and Exchange Act.	Article 27 of the Financial Instruments and Exchange Act of 2007.	Article 27 of the Securities and Exchange Act.	Article 27 of the Financial Instruments and Exchange Act of 2007.
Person required to file	Any person acquiring beneficial ownership of more than 5% of a class of voting securities.	If no purpose of changing or influencing the control of the issuer. Cases: (i) qualified institutional investors; and (ii) passive investors (acquiring between 5% and 20%)	A holder of the Target Securities whose holding exceeds 5% (a "Large Volume Holder"). Cases: (i) a person who aims at controlling business activities of the issuer; or (ii) a person who has the authority necessary to make investments in Share Certificates based on a discretionary investment contract or any other contracts or the provisions of the laws.		If the purpose of holding is not for effecting material changes in or giving material effect to the business activities of the issuer of the Share Certificates.	
Initial Filing Deadlines	Within 10 days after the acquisition.	Qualified institutional investors (if 5% - 10%, 45 days after calendar year end; if exceeds 10%, within 10 days after the end of the month); passive investors (10 days after the acquisition).	Within 5 business days from the date on which such person has come to be a "Large Volume Holder."	Within 5 business days. If "Large Volume Holder" intends to conduct an Act of Making Important Suggestion then should submit to the Prime Minister a Report of Possession of Large Volume.	Within 15th day of the subsequent month after exceeded 5% for the first time.	Within 5 days after have exceeded 5% for the first time .
Amendment Filing Deadlines	File promptly if change of 1% or more.	Qualified institutional and passive investors (if 5% – 10%, 45 days after calendar year end; if exceeds 10%, within 10 days after the end of any month)	Within 5 days if ownership increase or decrease by 1% or more, or where there arises any other changes in important matters to be contained in the Report of Possession of Large Volume to the Prime Minister.		Within 15th day of the subsequent month after if ownership increased or decreased by 1% or more.	Within 5 days after if ownership increased or decreased by 1% or more.
Switching from "passive" to "active" (filing an initial Schedule 13D following previous filing of Schedule 13G)	- Qualified institutional investors should file within 10 days if person ceases to be an eligible institution or no longer holds the securities without the purpose of changing control of the issuer. - Passive investors should file within 10 days if they can hold the securities with the purpose or effect of changing or influencing control of the issuer or ownership equals or exceeds 20%. The filing person may re-file on Schedule 13G once the disqualification has ended.		(Not specified.)	When ownership has increased by 1% or more after the last report and when the shareholder intends to conduct an Act of Making Important Suggestions.		
Submission	To the Securities and Exchange Commission.		To the Prime Minister (Ministry of Finance - Financial Services Agency), copy to the stock exchange where the target firm is listed.			
Public Inspection	Available on EDGAR (Electronic Data Gathering, Analysis, and Retrieval) system.		The Prime Minister and the stock exchange shall make the "Reports of Possession of Large Volume" and "Change Reports" available for public inspection for five years from the date of receipt of these documents.			
Electronic Disclosure by Investors	EDGAR system (mandatory).		Voluntary.	Mandated from April 1, 2007 on EDINET.	Voluntary.	Mandated from April 1, 2007 on EDINET.