Does Monitoring of Asset Owners Accelerate Engagement?

An Analysis of Anti-takeover Provisions of Japanese Listed Companies

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Abstract

This paper attempts to examine whether the monitoring for asset managers increase the monitoring intensity of their portfolio companies. We use the data from Japan, where the asset managers are disciplined under the Stewardship Code in 2014, and are required to report the results of the voting behavior for general shareholder meetings in the revised Code in 2017. We find that the frequency of firms with anti-takeover provisions negatively correlates with the ownership of institutional investors who signed the Code, especially after 2017. We also find that firms with high ownership by institutional investors are more likely to remove the existing anti-takeover provisions and less likely to introduce new provisions. These findings support the view that the findings are consistent with the prediction that the monitoring intensity by asset owners on the asset managers has a pronounced role in the monitoring intensity of asset managers on the portfolio companies.

1   Introduction

Institutional investors are expected to improve the firm's corporate governance by reducing management entrenchment. There are two strategies for institutional investors to express their opinions to the corporate managers: `exit' and `voice.'[1] Among them, the voice strategy is regarded as costly due to the expenses of engagement with the managers. Especially the cost would be pronounced for passive funds because of their low fees. Indeed, Heath et al. (2021) point out that passive investors are less likely to vote against the agendas proposed by firm managers. However, there could be a possibility that the low frequency of voting against managers' proposals may be due to the results of engagements before the shareholder meetings. Therefore, even with the high frequency of voting by institutional investors who are supportive of the proposals by managers, it is difficult to distinguish whether it comes from the low intensity of engagement by institutional investors or the results of dialogue between institutional investors and managers. Furthermore, engagement activity is expensive, making the incentive for actively engage their portfolio companies seems to be low, especially for passive investors. Lewellen and Lewellen (2022) estimate the value of engagement. They show they achieve enough financial profit even under a low commission fee.

We propose the possibility that the intensity of engagement by the institutional investor is influenced by the intensity with that they are disciplined. From the asset owner side, using passive funds enables them to enjoy portfolio diversification at a low cost. Improving the investment performance is possible when engagement by the asset management companies improves the enterprise value of their portfolio companies. In this case, asset owners may request asset management companies to improve their intensity of engagement.

If the behavior of asset management companies is monitored or disclosed, their effort level is disclosed by their asset owners. To improve the revenue from managing funds, asset management companies need to expand their asset under management (AUM). If the asset management companies notice that asset owners prefer the fund that monitors their portfolio companies, even if the fund is passive or active, they have the incentive to monitor their portfolio companies.

Our study attempts to examine whether the engagement of institutional investors is influenced by how they are monitored by their asset owners using a novel institutional setting in Japan. In Japan, the Stewardship Code was adopted in 2014 and revised in 2017. The Code was not mandated for all institutional investors. However, not all established asset management companies agreed with it.

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[1] The importance of the exit has been well examined in previous studies such as Admati and Pfleiderer (2009) and Edmans (2009).

Furthermore, the Code required asset management companies to improve their intensity of engagement by engaging with portfolio companies. Therefore, we expect high intensity of engagement after the Code adoption. Using the sample period covering both with and without the Code, we examine whether the asset owners' monitoring for the institutional investors disciplines their role as the monitor.

Specifically, we focus on the anti-takeover provisions, which could be the source of management entrenchment (see DeAngelo and Rice (1983) and others). Anti-takeover provisions can protect managers' positions at the expense of shareholders' wealth. Therefore, they exacerbate the agency conflicts between managers and shareholders. In Japan, the number of firms adopting the provisions increased during the 2000s due to the rapid rise of activist funds (Arikawa and Mitsusada, 2011, Hosono et al., 2011, Yeh, 2014). While it was not well observed until the 1990s, several foreign and domestic funds started hostile takeovers in Japan from the early 2000s. As a result, Japanese firms protected themselves by adopting anti-takeover measures. In 2011, at the beginning of our sample period, 351 of 2350 listed firms adopted at least one type of anti-takeover provision.

These two Japan-specific institutional settings enable us to understand whether the intensity of engagement by Japanese institutional investors influences the adoption of anti-takeover provisions of their portfolio companies. If the Code disciplines the institutional investors to engage with their portfolio companies, the probability to adopt anti-takeover provisions would be negatively correlated with the ownership by institutional investors, especially those who accepted the Stewardship Code.

We first show that institutional investors' ownership ratio is negatively associated with the likelihood of adopting the anti-takeover provisions. Specifically, the negative relationship is vital as the requirements of the revised Code became stricter than the original Code.

Then, we examine the relationship between institutional investors and anti-takeover provisions from a different point of view. First, we examine whether institutional investors influence the removal of the anti-takeover provisions. To do so, we built an indicator variable that takes the value of one for the firms that declined the renewals of the anti-takeover provisions and showed that ownership by institutional investors is positively associated with the anti-takeover removals.

Lastly, we examine whether the voting outcomes of the anti-takeover provisions at the shareholder meetings relateto the ownership by institutional investors. We find a positive relationship between institutional investor ownership and the percentage of voting against adopting the anti-takeover measures. Notably, the positive relationship is observed even before the stewardship code was enacted, which implies the possibility that institutional investors used their voting to prevent managers' potential management entrenchment behavior. The results differ from the findings of the engagement

above that the probability of provision adoption is negatively correlated with the institutional investor ownership after the Code adoption.

2 Literature Review and Background

Our paper relates and contributes to several strands of the literature. The first one is the role of large institutional investors. The second one is the anti-takeover provisions and their roles. Furthermore, we show the institutional background of our empirical tests.

2.1 Rise of Big Institutional Ownership and Its Consequences

The current increase in index investment pays attention to their influence on the firm's decision-making. On the one hand, previous studies have argued contradictory views on the role of institutional investors.

Several studies show that institutional investors monitor the firm's behavior. It is worth pointing out that even passive investors, who require lower fees than active funds, improve the corporate governance of their investee firms. Appel et al. (2016) exploit the reconstitutions of Russell 1000 and 2000 indices and find the improvement of corporate governance structure as the index-linked investment increases. [2] Such index-linked institutional investors also influence the degree of asymmetric information between firm managers and investors. Boone and White (2015) find that managers' information disclosure increases as institutional investors' ownership increases.

Furthermore, Abramova et al. (2020) show an increase in a firm's disclosure transparency. For example, Gormley et al. (2022) find that passive investment improves gender diversity in board structure. They find that the portion of female directors increases as the fund ownership increases. Furthermore, they point out that these female directors hold essential positions. Jenter and Lewellen (2020) show that CEO turnover decision-making is associated with the institutional investors' ownership, indicating that engagement by institutional investors works well to improve enterprise value. Specifically, they find that CEOs of low-performance firms are more likely to be retired as the ownership of institutional investors increases. Moreover, it is well-examined that institutional

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[2] On the other hand, several studies argue that institutional investors, especially index-linked investors have less incentive to monitor their portfolio firms (Schmidt and Fahlenbrach, 2017).

investors improve the environmental issue of the portfolio companies. Dyck et al. (2019) show that the ESG scores primarily Environmental and Social increase as the institutional investors increase.[3]

The results of the shareholder meetings are well examined because of the data availability; however, the detail of the institutional investors' engagement behavior is not publicly available.[4]

The question is: What is the incentive for passive investors? In the case of active funds, engaging portfolio companies improve the fund performance, leading to the increase of the fund managers. Lewellen and Lewellen (2022) compute the value of engagement by institutional investors. They show that they achieve enough financial profit even under a low commission fee.

2.2   Antitakeover Protection and Corporate Governance

Anti-takeover provisions can prevent firms from hostile takeovers. However, it also leads to the concern of management entrenchment. The anti-takeover provisions can increase the agency costs because such protections reduce shareholder rights by preventing their `voice' strategy.

Indeed, Gompers et al. (2003) find that holding long positions for firms with few anti-takeover provisions and short positions for firms with more clauses provides a positive abnormal return. This positive return indicates that such provisions destroy shareholder values by improving management entrenchment. To do so, they propose the index constructed by the firm's anti-takeover provisions, called G-Index or GIM-Index. The relationship between the GIM index and stock price is supported by other studies, such as Cremers and Nair (2005).

Subsequent analyses further analyze the mechanism between the anti-takeover provisions and long-term stock returns. The GIM index is constructed by 24 provisions. Bebchuk and Hirst (2019) find that, among the 24 provisions, four provisions have significant explanatory power on future stock returns. Furthermore, it is known that the GIM index is associated with an idiosyncratic stock risk (Ferreira and Laux, 2007).

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[3] However, Michaely et al. (2021) raises concern the possibility of the `greenwashing' for the voting behavior of the institutional investors against environmental and social proposals. They find that institutional investors vote opposite for the proposals with less possibility to be pivotal.

[4] Several studies collect the results of the engagement activities by the institutional investors and argue how they monitor the firms. For example, Dimson et al. (2015) use a proprietary data of engagements by institutional investors and find the success of the engagement about the ESG activities derives positive stock return. Hidaka et al. (2022) use the results of engagements of by three Japanese institutional investors and show how the institutional investors select engaging firms and show the impact of the engagements. Similarly, McCahery et al. (2016) conduct a survey for 143 institutional investors and examine their engagement preferences.

The GIM index also influences the cost of debt. Chava, Dierker, and Livdan (2004) show that GIM is positively correlated with bank interest rates. The positive relationship implies that banks consider the agency problem as a factor influencing the default risk and increasing the cost of debt.

Subsequent studies show that the index is positively or negatively associated with a firm's executive compensations, cash holding (Bates et al., 2009), the marginal value of cash (Dittmar and Mahrt-Smith, 2007), executive compensations (Gabaix and Landier, 2008) and firm's operating performance (Bhagat and Bolton, 2008).

The management entrenchment measured by the GIM index influences the value of the cash that is defined by Faulkender and Wang (2006). For example, Dittmar and Mahrt-Smith (2007) show that the value of cash is negatively associated with the GIM index, indicating that investors evaluate the value of cash as cheap for firms with a high GIM index. Moreover, Masulis, Wang, and Xie (2006) show that excess control rights, which is the difference between stockholders' cashflow and control right where control right is a function of the GIM index, explains the value of cash.

2.3   Activists and Antitakeover Defenses in Japan

Japanese listed companies had protected themselves from corporate raiders by holding each stock, which is called a cross-shareholdings. Then, the hostile takeover was rare until the early-2000. Then, in 2003, MAC Asset Management, a domestic activist fund founded by Yoshiaki Murakami, declared to purchase the stocks of Nippon Broadcasting Systems, one of the largest Japanese media conglomerates. The news had a social impact. After the news, Japanese firms began to adopt anti-takeover defenses.

The arrest of Murakami cast the damper on activist funds in Japan. He was arrested for insider trading for the Nippon Broadcasting Systems transaction in June 2006. As a result, MAC Asset Management stopped its business in August 2006. After that, the activist funds were inactivated in Japan. The number of firms with anti-takeover provisions has declined since then because of the less concern of the hostile takeovers by activist funds and the critics of the inefficiency of the anti-takeover charters, several listed companies stopped adopting them. Even though, 351 firms, which is 14.9 percentage of all listed firms, still employ the anti-takeover provisions in 2011, the beginning of our sample period. The firms adopting the anti-takeover provisions gradually declined to *** firms in 2020, as described in Figure 1.

Insert Figure 1

2.4   Stewardship Code in Japan

Under Abe administration, the Japanese government adopted the Japanese Stewardship Code. The Code required institutional investors to increase engagement and to improve their intensity of engagement for the portfolio companies. Furthermore, the Code required institutional investors to disclose the basic policy of the engagement.

3   Empirical Method and Data

3.1   Empirical Method

Our paper relies on the setting where the intensity of engagement by the institutional investors' changes by the government. In Japan, the Stewardship Code was adopted in 2014, which required institutional investors to increase the intensity of engagement. Furthermore, the Code was updated in 2017, requiring institutional investors to disclose the voting results at general stockholder meetings. Tsukioka (2020) describes that institutional investors efficiently use their voting rights, especially voting against managers' proposals for less profitable companies using the data after the Code adoption.

We use this setting as an exogenous shock that affects the intensity of engagement by the institutional investors and examine whether it influences the firm's adoption of anti-takeover provisions. In this aim, we estimate the equation

$$y = \alpha + \beta_1 I(2014\&LATER) + \beta_2 I(2017\&LATER) + \gamma_1 AMOWN$$
$$+\gamma_2 I(2014\&LATER) \times AMOWN + \gamma_3 I(2017\&LATER) \times AMOWN + X\boldsymbol{\gamma} + \epsilon,$$

where he dependent variable, y, contains the variables that relate to institution investors' voting preferences at general shareholders' meetings. The indicator variable $I(2014\&LATER)$ takes the value of one for the observation those ended accounting period March 2014 or after and zero otherwise, and $I(2017\&LATER)$ takes the value of one for the observation those ended accounting period **June** 2017 or after and zero otherwise.[5] The ownership by institutional investors is measured by $AMOWN$, which is constructed by Ownership Data from Factset.

Our variables of interest are two interaction terms $I(2014\&LATER) \times AMOWN$ and $I(2017\&LATER) \times AMOWN$. We expect the coefficients of these two interaction terms, γ_2 and γ_3 are positive. Strictly, our null hypothesis is that $\gamma_2 = 0$ and $\gamma_3 = 0$.

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[5] The revised Code was acted on June 2017, therefore, the

AMOWN is defined as the cumulative of ownership by domestic asset management companies those agreed with the Code. Specifically, we collect the fund ownership information from FACTSET Ownership dataset for all listed firms in Japan. we count the frequency of occurrence of each asset company, and then sort them by the frequency. We select domestic asset management companies those number of frequency is the 50 largest in the total sample and agreed with the Code.[6] We do not include foreign asset management companies because they are not obligated to the Code.

Vector X is the set of control variables that could affect a firm's decision to adopt anti-takeover provisions. We add several financial variables such as ROE, SIZE, LEVERAGE, B/M, SDTA, and CASH. The profitability, ROE, is defined as the net income divided by total assets. We also control the firm size by adding the natural logarithm of the market value of the firm (SIZE). Further, we control the firm's financial book leverage, LEVERAGE, which is defined as total liabilities divided by total assets. Firms with low book-to-market ratios, few payouts for stockholders, and large cash holders are more likely to be the target of a hostile takeover. Therefore, we add the book-to-market ratio (B/M), defined as the sum of market capitalization and the book value of debt divided by the book value of total assets, payout ratio (SDTA), defined as the sum of dividend payments and share repurchases divided by total assets, and cash ratio (CASH), defined as the cash and cash equivalents divided by total assets, as control variables. We also add a variable relates to the firm's corporate governance structure, OUTDIRECTOR, which is the ratio of outside directors to all board members.

--There is a possibility that the ownership structure of non-institutional investors affects the decision of the company to adopt anti-capitalization provisions. In fact, Agrawal and Mandelker (1990) examined the amendment of the large-scale ownership and counter-occupation charter. Furthermore, in Japan, in the traditional business group system, cross-shares are well observed. Indeed, Aoki and Patrick (1995) believe that this system was set up to protect themselves from hostile captures in the 1960s. As a result, the ownership variable of foreign investors, commercial banks and companies has been added.

3.2 Data

Anti-takeover provisions of Japanese listed firms are obtained from two data sources. The first one is NEEDS-*Cges* (Corporate Governance Evaluate System) database provided by Nikkei Media

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[6] The asset owners included for calculating the AMOWN are Daiwa Asset Management Co. Ltd.; Nomura Asset Management Co., Ltd.; Nikko Asset Management Co., Ltd.; Asset Management One Co., Ltd.; Mitsubishi UFJ Kokusai Asset Management Co., Ltd.; Sumitomo Mitsui Trust Asset Management Co., Ltd.; Sumitomo Mitsui DS Asset Management Co., Ltd.; Nissay Asset Management Corp.; Meiji Yasuda Asset Management Co. Ltd.; Sumitomo Mitsui Asset Management Co., Ltd.; Tokio Marine Asset Management Co., Ltd..

Marketing Inc. The *Cges* covers the anti-takeover provisions from 2015. Before 2014, we hand collect the anti-takeover provisions from the names of agendas in general shareholders' meeting. The detail information of the general shareholder meeting is obtained from Nikkei's Shareholder Meeting Dataset, which contains the firm name, ticker code, dates of the meeting, names of agenda, approval rate for each agenda. From the name of agenda, we distinguish whether the firm (1) newly adopt or (2) renewals of the anti-takeover defense provisions.

Financial and stock price information are obtained from the Nikkei NEEDS FINANCIAL Quest 2.0 service, which is well-used data source for collecting accounting information of Japanese listed firm.

Institutional investors' ownership information is obtained from Factset Ownership Dataset through its API. From the Dataset, we obtain all ownership information from any kind of institutional investors, including hedge funds, asset management companies, insurance companies, and others. We download the fund ownership data of all listed firms for monthly frequency.

In robustness analyses, we use the detail of the voting results by the institutional investors. Our data on voting by institutional investors are obtained from the PDF files disclosed by major institutional investors including asset management companies, insurance, and others.

4   Empirical Findings

4.1   Baseline Results

4.2   Impact on the anti-takeover clauses

Table 3 reports the results of estimating equation [1] where the dependent variable is the indicator variable that takes the value of one with firms with any kind of anti-takeover clauses. In order to control unobservable heterogeneity among groups, columns 1 and 2 employ the industry level fixed-effect models and columns 3 and 4 employ the firm-level fixed effect model.

In column 1, the estimated coefficient of AMOWN is negative, but statistically insignificant. The result indicates that in entire sample period, the ownership by institutional investors is not associated with the firm's anti-takeover provisions throughout our sample period.

In column 2, we add two interaction terms. Now, the estimated coefficients of them are negative and statistically significant, whereas the coefficient of the AMOWN is positive. As we shown in entire sample, in column 1, AMOWN does not relate with the adoption of anti-takeover provision. However, the negative coefficients of two interaction terms imply the influence differs by the sample period.

It is noteworthy that impact of the institutional investors on the anti-takeover provision changes as the Stewardship Code became stricter. For the period before the Code, before 2013, the frequency for adopting anti-takeover provision increases as the asset management company holds more shares.

For the period between 2014 and 2016, when the original Code was adopted, the sensitivity of the impact of asset management companies declined. However, the sum of the coefficients of AMOWN and AMOWNxI(Y2014LATER) is positive (0.020-0.014), implying that the Code itself does not provide enough influence on asset management owners to remove anti-takeover provisions.

For the observations after 2017, both variables I(2014 and LATER) and I(2017 and LATER) take the value of one. Therefore, the impact of the ownership by institutional investors on the anti-takeover provision is the sum of two interaction terms, -0.028 (=-0.014 – 0.014). This implies that a one percentage point increase in the ownership by institutional investors leads to a 2.8 percentage point decrease in the probability of adopting anti-takeover provisions.

The estimated coefficients of control variables are almost consistent with the findings in previous studies as follows. Firms with less profitability, large, few leverages, low book-to-markets ratio, and less dividend ratio are more likely to be with anti-takeover provisions. Those are consistent with the prediction. Interestingly, firms with fewer cash holdings are more likely to adopt the anti-takeover provisions, which could be opposed to the prediction that cash-rich firms are more likely to be the target of hostile takeovers.

Next, in order to understand the within-firm comparison, we examine the firm-level fixed-effect model to examine the within-firm effect of the institutional investors on the anti-takeover provisions. Column 3 reports the results of the fixed-effect model. As same with the OLS estimation, the estimated coefficients of the two interaction terms are negative and statistically significant. The results indicate that firms are less likely to the anti-takeover provisions as the ownership by institutional investors increases.

Institutional investors can reduce the probability of adopting the anti-takeover provisions of their portfolio companies in two ways: abolishing the anti-takeover provisions and preventing firms from newly introducing the provisions. In the next subsection, we examine whether institutional investors employ either or both ways.

4.3   Abolitions of the Antitakeover Provisions

We examine whether institutional investors play a role in the abolishment of the anti-takeover provisions. If anti-takeover provisions increase management entrenchment and reduce the enterprise

value, the institutional investors will attempt to repeal them through engagement activities such as dialogue with the managers before the general shareholder meetings. If so, we predict that ownership by institutional investors is positively associated with the probability of abolitions of the anti-takeover provisions.

Table 4 shows the results where the dependent variable is an indicator variable that takes the value of one for the firms that stopped renewals of their anti-takeover clauses. The sample consists of the firms with anti-takeover provisions in the previous year.

Column 1 reports the results without interaction terms with OLS estimations. Here, the ownership by institutional investors is positively associated with the probability of the removal of the anti-takeover provisions. Furthermore, the results in column 2 show that the impact of the ownership is pronounced as the Stewardship Code becomes strict. The estimated coefficients of both interaction terms are negative and statistically significant.

The positive relationship between institutional investor ownership and the abolition of the anti-takeover provisions is observed in the firm-level fixed-effect model. In column 3, the estimated coefficients of the two interaction terms are positive and statistically significant.

4.4 Introducing the New Adoptions

As we have shown, while the number of firms with anti-takeover provisions has been declining in Japan, several firms newly introduce adoptions every year. Then, we investigate whether the asset owners prevent the new adoption of anti-takeover provisions.

To do so, we estimate the following model.

$$Introducing\ Adoptions = \alpha + \beta_1 AMOWN + \boldsymbol{X\gamma} + \epsilon$$

where the *Introducing Adoptions* takes the value of one for firm/year, those new anti-takeover provisions are approved at the general shareholder meetings.

Table 5 shows the results. We find that the asset management companies prevent the firms' introduction of the new anti-takeover clauses. Column 1 reports the results of the model with OLS estimates. We find that the estimated coefficient of the interaction term with $I(2014\ And\ LATER)$ is negative indicating that after the Stewardship Code adoption, institutional investors are more likely to go against for introducing the anti-takeover provisions. Interestingly, the estimated coefficient of the interaction term with $I(2017\ And\ LATER)$ is statistically insignificant indicating that the disclosing voting results at the shareholder meeting by institutional investors do not affect the introduction of the clauses.

4.5   Approval Rate for the Antitakeover Provisions

We further examine the outcome of the proposals for anti-takeover provision. Specifically, we examine whether institutional investors oppose such proposals. However, the results of investor-level voting results at shareholder meetings are publicly available from 2017 under the revised Stewardship Code. Therefore, we cannot compare the voting behavior before and after the Code. Alternatively, we examine the relationship between the ownership by institutional investors and the opposition rate using Nikkei's Shareholder Meeting Database. Strictly, we select the proposals for the anti-takeover provisions and examine whether the opposition rate is related to the ownership by the institutional investors.

Table 6 reports the results of OLS estimates where the opposition rate of anti-takeover provisions is the dependent variable. We do not report the results of the fixed-effect model because of the small sample period. The fixed-effect model requires sufficient periods to estimate an unbiased estimator. However, the sample in Table 6 is those with anti-takeover provisions, and in some cases, one firm appears only once or twice, making it challenging to estimate the fixed effect model.

Column 1 reports the results of OLS estimates without interaction terms. The AMOWN is positive and statistically significant at the 1% level. The estimated coefficient of AMOWN is 1.507, indicating that a one percentage point increase in the institutional investors' ownership leads to a 1.507 percentage points increase in the opposition rates for the anti-takeover provisions.

Interestingly, the positive relationship between the institutional investors and the opposition rate is observed throughout our sample period. Column 2 reports the results with interaction terms and shows that none of the estimated coefficients of the interaction terms are statistically different from zero. In column 2, the estimated coefficient of AMOWN is positive and statistically significant, as well as in column 1.

5   Comparing with Ineligible Management Companies.

A fundamental assumption is that the Stewardship Code disciplines asset management companies. One may have a concern that the results so far capture not the influence of the Code but another macro-level shock. For example, Corporate Governance Code was adopted in Japan, which required Japanese listed companies to improve their quality of corporate governance. In order to exactly identify the impact of the Code, we examine the impact of non-signatory asset management companies on the adoption of anti-takeover provisions.

Furthermore, as we mentioned, the Code was not eligible, while the majority of the large asset management companies signed the Code. Therefore, the Code should affect the intensity of engagement by asset management companies accepting the Code. Therefore, we estimate the influence of the ownership of non-signatory institutions on the firm's anti-takeover provisions.

Table 7 reports the results by adding the ownership of non-signatory institutions. Columns 1 and 2 report the results based on the model used in Table 3, but add INELIGIBLE, an indicator variable for non-signatory institutions, and the interaction terms with I(Y2014LATER) and I(Y2014LATER). Columns 3 and 4 report the results based on the models in Table 6 in order to understand the impact of ownership on voting behavior at the meetings.

Overall, the results reject the view that the ownership of non-signatory institutions influences the firm's anti-takeover adoptions (Columns 1 and 2). While, in column 1, the coefficient of INELIGIBLE x I(Y2014LATER) is positive and significant at the 10% level, other coefficients are statistically insignificant. The results indicate that the ownership by non-signatory institutions have very little or no impact on adopting anti-takeover provisions.

In columns 3 and 4, we also find no evidence supporting the view that non-signatory institutions influence voting against adopting the anti-takeover provisions. While the estimated coefficient of AMOWN is positive in column 3, that of INELIGIBLE is negative and statistically insignificant.

Overall, these results support the view that disciplining asset management companies to play an important role in improving the engagement against their portfolio companies.

6   Conclusions

This paper attempts to examine whether the engagement for asset management companies increase the intensity of engagement toward their portfolio companies. We use the data from Japan, where the asset management companies are disciplined under the Stewardship Code in 2014 and are required to report the results of the voting behavior for general shareholder meetings in the revised Code in 2017. We find that the frequency of firms with anti-takeover provisions is negatively correlated with the ownership of institutional investors who signed the Code, especially after 2017. We also find that firms with high ownership by institutional investors are more likely to remove the existing anti-takeover provisions and less likely to introduce new provisions. This evidence supports the view that

The findings are consistent with the prediction that the monitoring intensity by asset owners on the asset management companies has a prominent role in the engagement intensity of asset management companies on the portfolio companies.

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Table 1
Variable Definitions

	Definition	Data Sources
I(ANTITAKEOVER)	An indicator variable that takes the value of one for a firm adopts anti-takeover defenses at the end of fiscal year.	NIKKEI Shareholder Meeting; Nikkei Cges
AMOWN	Shareholdings by major Japanese asset management companies.	Factset Fund
ROE	Net income divided by lagged book value of equities.	NIKKEI FQ
SIZE	Natural logarithm of the market value	NIKKEI FQ
LEVERAGE	Total liabilities divided by total assets	NIKKEI FQ
B/M	Market value of equities divided by book value of equities	NIKKEI FQ
SDTA	Sum of dividends and share repurchases divided by total assets	Nikkei Cges
CASH	Cash and cash equivalents divided by total assets	NIKKEI FQ
OUTDIRECTOR	The number of outside directors divided by the number of directors	Nikkei Cges; NIKKEI
FOREIGN OWNERSHIP	Number of shareholdings by foreign investors divided by share outstanding	NIKKEI FQ Major Shareholders
BANK OWNERSHIP	Number of shareholdings by commercial banks divided by share outstanding	NIKKEI FQ Major Shareholders
BUSINESS OWNERSHIP	Number of shareholdings by corporate shareholders divided by share outstanding	NIKKEI FQ Major Shareholders
INELIGIBLE OWNERSHIP	Number of shareholdings by signatory trust banks and insurance companies divided by share outstanding	NIKKEI FQ Major Shareholders

Table 2
Summary Statistics

N.=22521	Mean	St. Dev.	Min.	25% Tile	Median	75% Tile	Max.
I(ANTITAKEOVER)	0.149	0.356	0.000	0.000	0.000	0.000	1.000
AMOWN	1.531	2.285	0.000	0.000	0.768	1.949	14.640
ROE	6.371	11.609	-66.101	2.980	6.437	10.709	63.154
SIZE	10.761	1.746	6.967	9.564	10.600	11.787	15.845
LEVERAGE	47.996	19.813	8.364	32.527	47.867	63.041	92.382
B/M	1.268	0.778	0.075	0.693	1.120	1.685	4.563
SDTA	1.038	1.054	0.000	0.412	0.771	1.306	7.822
CASH	18.981	13.846	0.868	8.968	15.542	25.128	71.809
OUTDIRECTOR	21.133	15.248	0.000	11.111	20.000	33.333	68.729
FOREIGN OWNERSHIP	4.531	6.292	0.000	0.000	1.880	6.770	32.006
BANK OWNERSHIP	3.364	3.607	0.000	0.000	2.430	5.310	15.477
BUSINESS OWNERSHIP	22.657	19.498	0.000	5.980	17.650	35.700	75.788

Table 3
Determinants of the Antitakeover Provisions

This table presents the results of estimating equation [1] where the dependent variable takes the value of one for the observations with anti-takeover provisions. The sample period is 2010 to 2020. AMOWN is the aggregated ownership by asset management companies. Columns 1 and 2 (3 and 4) reports the results with industry (firm) level fixed-effects. We also add year fixed effects in all estimations. Heteroskedasticity-consistent standard errors clustered at the firm level are shown in brackets. We use ***, **, and * to denote significance at the 1%, 5%, and 10% level, respectively.

	[1]	[2]	[3]	[4]
AMOWN	-0.002	0.020***	-0.009***	0.017***
	[-1.547]	[3.832]	[-5.442]	[4.265]
AMOWN x I(Y2014LATER)		-0.014***		-0.015***
		[-3.573]		[-4.294]
AMOWN x I(Y2017LATER)		-0.014***		-0.014***
		[-3.644]		[-7.397]
ROE	0.000*	0.000*		0.000*
	[-1.807]	[-1.899]	[-1.616]	[-1.804]
SIZE	0.028***	0.025***	0.012	0.016*
	[4.448]	[4.272]	[1.386]	[1.902]
LEVERAGE	-0.001***	-0.001***	0.000	0.000
	[-2.975]	[-2.865]	[-0.541]	[-0.369]
B/M	-0.029***	-0.025***	-0.013***	-0.005
	[-3.335]	[-3.033]	[-2.585]	[-1.104]
SDTA	-0.013**	-0.012**	-0.008***	-0.005*
	[-2.566]	[-2.392]	[-2.700]	[-1.871]
CASH	-0.001*	-0.001*	0.000	0.000
	[-1.836]	[-1.839]	[0.282]	[0.246]
OUTDIRECTOR	0.001	0.001*	0.000	0.000
	[1.636]	[1.769]	[-0.437]	[0.010]
FOREIGN OWNERSHIP	-0.003***	-0.003***	-0.002***	-0.002**
	[-3.211]	[-3.256]	[-2.691]	[-2.154]
BANK OWNERSHIP	0.012***	0.012***	0.001	0.000
	[5.045]	[5.032]	[0.267]	[0.101]
BUSINESS OWNERSHIP	-0.003***	-0.003***	-0.001*	-0.001**
	[-4.508]	[-4.409]	[-1.798]	[-1.999]
Adj R2	0.124	0.127	0.823	0.826
N. of OBSERVATIONS	22521	22521	22521	22521

Table 4
Determinants of Abolishment of the Provisions

This table presents the results of estimating equation [1] where the dependent variable takes the value of one for the firm that stopped the renewal of the anti-takeover provisions. The sample covers all firms those were with anti-takeover provisions at year *t-1*. period is 2010 to 2020. AMOWN is the aggregated ownership by asset management companies. Columns 1 and 2 (3 and 4) report the results with industry (firm) fixed-effects. We also add year-fixed effects in all estimations. Heteroskedasticity-consistent standard errors clustered at the firm level are shown in brackets. We use ***, **, and * to denote significance at the 1%, 5%, and 10% levels, respectively.

	[1]	[2]	[3]	[4]
AMOWN	0.013***	-0.005**	0.015***	-0.031***
	[4.245]	[-2.279]	[3.330]	[-4.464]
AMOWN x I(Y2014LATER)		0.015***		0.033***
		[3.477]		[5.604]
AMOWN x I(Y2017LATER)		0.011**		0.021***
		[2.551]		[3.693]
ROE	0.000	0.000	0.001	0.001
	[0.082]	[0.117]	[1.275]	[1.368]
SIZE	0.012**	0.013**	0.051	0.036
	[2.396]	[2.724]	[1.034]	[0.744]
LEVERAGE	0.001**	0.001**	0.001	0.002
	[2.345]	[2.188]	[0.935]	[1.162]
B/M	0.002	0.000	0.011	0.000
	[0.273]	[0.045]	[0.619]	[0.004]
SDTA	0.012	0.010	0.034**	0.029*
	[1.260]	[1.037]	[2.237]	[1.911]
CASH	0.001	0.001	0.000	0.001
	[1.510]	[1.630]	[0.173]	[0.358]
OUTDIRECTOR	0.000	0.000	0.001	0.001
	[1.123]	[1.194]	[0.864]	[1.062]
FOREIGN OWNERSHIP	0.003***	0.003***	0.002	0.001
	[3.848]	[3.826]	[0.716]	[0.279]
BANK OWNERSHIP	-0.002*	-0.002*	-0.004	-0.006
	[-1.822]	[-2.016]	[-0.442]	[-0.676]
BUSINESS OWNERSHIP	0.001*	0.001	0.004*	0.004**
	[1.839]	[1.621]	[1.885]	[2.025]
Adj R2	0.081	0.086	0.114	0.133
N. of OBSERVATIONS	3104	3104	3104	3104

Table 5
Introduction of the Antitakeover Provisions

This table presents the results of estimating equation [1] where the dependent variable takes the value of one for the observations that introduce anti-takeover provisions. The sample period is 2010 to 2020. AMOWN is the aggregated ownership by asset management companies. Columns 1 and 2 (3 and 4) report the results with industry (firm) level fixed-effects. We also add year-fixed effects in all estimations. Heteroskedasticity-consistent standard errors clustered at the firm level are shown in brackets. We use ***, **, and * to denote significance at the 1%, 5%, and 10% levels, respectively.

	[1]	[2]	[3]	[4]
AMOWN	-0.001***	0.003*	-0.001***	-0.001
	[-3.155]	[1.715]	[-2.655]	[-0.502]
AMOWN x I(Y2014LATER)		-0.004**		0.000
		[-2.213]		[-0.490]
AMOWN x I(Y2017LATER)		0.000		0.000
		[0.743]		[0.285]
ROE	0.000	0.000	0.000	0.000
	[-1.377]	[-1.358]	[-0.862]	[-0.853]
SIZE	0.001*	0.001	0.001	0.001
	[1.815]	[1.587]	[0.277]	[0.295]
LEVERAGE	0.000	0.000	0.000	0.000
	[-1.040]	[-0.903]	[0.380]	[0.387]
B/M	-0.002*	-0.001	-0.004**	-0.004**
	[-1.743]	[-1.505]	[-2.167]	[-2.138]
SDTA	-0.001	-0.001	0.000	0.000
	[-0.990]	[-0.883]	[0.025]	[0.040]
CASH	0.000	0.000	0.000	0.000
	[-0.029]	[0.014]	[0.611]	[0.609]
OUTDIRECTOR	0.000	0.000	0.000**	0.000**
	[1.236]	[1.328]	[2.000]	[1.983]
FOREIGN OWNERSHIP	0.000**	0.000**	0.000	0.000
	[-2.576]	[-2.584]	[-0.872]	[-0.853]
BANK OWNERSHIP	0.000	0.000	-0.001	-0.001
	[0.361]	[0.414]	[-0.907]	[-0.907]
BUSINESS OWNERSHIP	0.000***	0.000***	0.000	0.000
	[-5.853]	[-6.033]	[-0.990]	[-0.992]
Adj R2	0.009	0.010	0.322	0.322
N. of OBSERVATIONS	16746	16746	16746	16746

Table 6
Percentage of Against Voting for the Antitakeover Provisions

This table presents the results of estimating equation [1] where the dependent variable is the percentage of voting against the introduction/renewal of anti-takeover provisions at the shareholder meetings. The sample covers all observations that adoption of the anti-takeover provisions is put on the agenda for the general shareholders meetings between 2010 and 2020. AMOWN is the aggregated ownership by asset management companies. Columns 1 and 2 (3 and 4) report the results with industry (firm) level fixed-effects. We also add year-fixed effects in all estimations. Heteroskedasticity-consistent standard errors clustered at the firm level are shown in brackets. We use ***, **, and * to denote significance at the 1%, 5%, and 10% levels, respectively.

	[1]	[2]	[3]	[4]
AMOWN	1.507***	1.757***	0.814***	0.242
	[7.296]	[9.856]	[5.105]	[0.884]
AMOWN x I(Y2014LATER)		-0.242		0.387
		[-1.530]		[1.530]
AMOWN x I(Y2017LATER)		-0.202		0.430*
		[-0.640]		[1.797]
ROE	-0.042*	-0.042*	-0.004	-0.002
	[-1.753]	[-1.734]	[-0.174]	[-0.074]
SIZE	3.825***	3.806***	4.636**	4.570**
	[12.068]	[12.055]	[2.284]	[2.303]
LEVERAGE	-0.087***	-0.087***	-0.085*	-0.080
	[-5.654]	[-5.777]	[-1.699]	[-1.627]
B/M	-0.712	-0.713	-0.108	-0.260
	[-1.434]	[-1.427]	[-0.229]	[-0.551]
SDTA	0.082	0.086	-1.376**	-1.460**
	[0.265]	[0.278]	[-2.175]	[-2.307]
CASH	-0.017	-0.020	-0.026	-0.023
	[-0.326]	[-0.376]	[-0.453]	[-0.421]
OUTDIRECTOR	-0.031	-0.031	-0.066**	-0.068**
	[-0.948]	[-0.956]	[-2.176]	[-2.311]
FOREIGN OWNERSHIP	0.826***	0.824***	0.458***	0.444***
	[15.215]	[15.275]	[3.984]	[3.827]
BANK OWNERSHIP	-0.348***	-0.342***	-0.115	-0.127
	[-4.599]	[-4.594]	[-0.511]	[-0.572]
BUSINESS OWNERSHIP	-0.122***	-0.120***	-0.118*	-0.118*
	[-4.263]	[-4.227]	[-1.774]	[-1.868]
Adj R2	0.688	0.688	0.850	0.852
N. of OBSERVATIONS	1172	1172	1172	1172

Table 7
Impact of Non-signatory institutions

This table presents the results of estimating equation [1] where the dependent variable is the percentage of voting against the introduction/renewal of anti-takeover provisions at the shareholder meetings in columns 1 and 2 and percentage of voting against the introduction/renewal of anti-takeover provisions at the shareholder meetings. The sample in columns 1 and 2 (3 and 4) are the same as that in Table 2 (Table 6). AMOWN is the aggregated ownership by asset management companies. I(Y2014LATER) and I(Y2017LATER) are the time indicator variables that takes the value of one for the observations 2014, or 2017 or later. INELIGIBLE is the aggregated ownership by non-signatory asset management companies. Columns 1 and 3 (2 and 4) report the results with industry (firm) level fixed effects. We also add year-fixed effects in all estimations. Heteroskedasticity-consistent standard errors clustered at the firm level are shown in brackets. We use ***, **, and * to denote significance at the 1%, 5%, and 10% levels, respectively.

| Dependent Variable:	I(ANTI-TAKEOVER)	I(ANTI-TAKEOVER)	PCT_AGAINST	PCT_AGAINST
Fixed Effects:	Industry Year	Firm Year	Industry Year	Firm Year
AMOWN	0.019***	0.017***	1.763***	0.261
	[3.774]	[4.262]	[9.981]	[0.956]
AMOWN x I(Y2014LATER)	-0.014***	-0.015***	-0.243	0.362
	[-3.508]	[-4.291]	[-1.566]	[1.433]
AMOWN x I(Y2017LATER)	-0.014***	-0.014***	-0.199	0.460*
	[-3.632]	[-7.387]	[-0.625]	[1.931]
INELIGIBLE	-0.010	-0.003	0.238	0.838
	[-1.455]	[-0.999]	[0.418]	[1.109]
INELIGIBLE x I(Y2014LATER)	0.011*	0.001	-0.071	-0.682
	[2.021]	[0.664]	[-0.110]	[-1.043]
INELIGIBLE x I(Y2017LATER)	-0.002	0.003	0.329	1.124
	[-0.175]	[0.638]	[0.389]	[1.460]
ROE	0.000*	0.000*	-0.043*	-0.002
	[-1.857]	[-1.804]	[-1.769]	[-0.085]
SIZE	0.025***	0.016*	3.810***	4.639**
	[4.234]	[1.894]	[12.059]	[2.342]
LEVERAGE	-0.001***	0.000	-0.088***	-0.079
	[-2.857]	[-0.354]	[-5.691]	[-1.626]
B/M	-0.025***	-0.005	-0.717	-0.252
	[-3.037]	[-1.119]	[-1.427]	[-0.532]
SDTA	-0.012**	-0.005*	0.083	-1.514**
	[-2.372]	[-1.862]	[0.270]	[-2.472]
CASH	-0.001*	0.000	-0.020	-0.021
	[-1.828]	[0.249]	[-0.374]	[-0.369]
OUTDIRECTOR	0.001*	0.000	-0.030	-0.069**
	[1.773]	[-0.001]	[-0.947]	[-2.366]
FOREIGN OWNERSHIP	-0.003***	-0.002**	0.823***	0.450***
	[-3.255]	[-2.150]	[15.077]	[3.879]
BANK OWNERSHIP	0.012***	0.000	-0.346***	-0.130
	[5.038]	[0.093]	[-4.502]	[-0.589]
BUSINESS OWNERSHIP	-0.003***	-0.001**	-0.118***	-0.119*
	[-4.399]	[-1.996]	[-4.201]	[-1.916]
Adj R2	0.127	0.826	0.688	0.852
N. of OBSERVATIONS	22521	22521	1172	1172
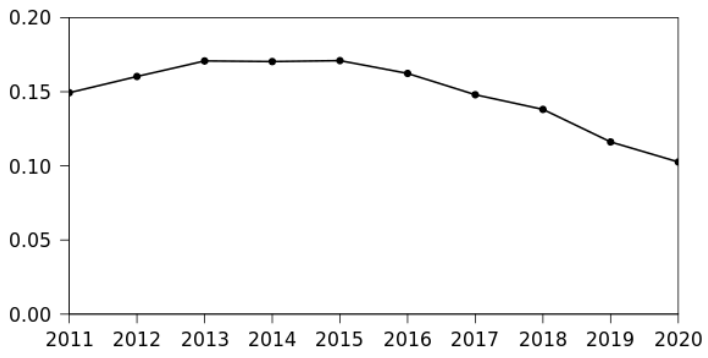
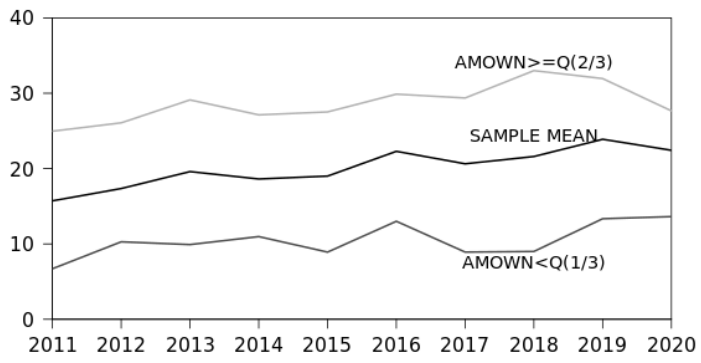Figure 1 Percentage of listed firms with anti-takeover provisions

Figure 2 Percentage of those against voting for the anti-takeover provisions by different institutional ownership