

The Effects of Corporate Governance Reforms on Mergers and Acquisitions in Japan

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Abstract

We analyze the effects that the introduction of new corporate governance and other regulatory reforms in Japan had on the market for corporate control and especially on mergers and acquisitions of public companies. We analyze the wealth effects for bidder and target shareholders and find that the magnitude of announcement abnormal returns converge towards US and European results. We also provide robust empirical evidence of a development towards a more capital market orientated corporate governance structure in Japan with less dependence on bank debt and an increase in foreign equity ownership as well a higher M&A activity. After regulatory reforms in 2004, bidder, target and deal characteristics changed substantially. Further, we analyze the phenomenon of bidder and target sharing the same financial advisor in M&A transactions for the period between 1998 and 2004. This phenomenon is most prominent in Japan. Surprisingly, the overall effects are less negative and not as clear-cut as expected. There is some evidence that the premium the bidder paid is lower. With respect to the time to deal completion, the results are mixed. Overall, we provide evidence for the success of the corporate governance reforms in Japan creating a higher M&A activity and a more active market for corporate control. However, we also observe that these improvements are volatile and still in progress.

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1. INTRODUCTION

Historically, the financial and corporate governance systems in Japan were bank dominated and quite distinct from the more capital market oriented systems in the US and the UK. One consequence of such a system is that the market for corporate control usually works suboptimal. In Japan, this surfaced in the form of a lower M&A activity (Milhaupt and West, 2003) and in fewer hostile takeovers (Puchniak and Nakahigashi, 2016). However, this changed at the end of the 1990s. Suddenly, a sharp increase in M&A activity occurred partly due to monetary easing but most importantly due to new regulation such as increased transparency and better investor protection as well as lower restrictions on the engagements of foreign investors. Further, financial market deregulation extended banks' activities beyond lending, offering the opportunity to expand their activities into M&A advisory. As in most similar financial system arrangements, this created agency problems. For example, the main banks as the predominant monitor in Japan had traditionally and still have substantial information advantages and influence on management, resulting in the typical debt-equity conflicts of interest (Miyajima et al., 2017). It could also increase the information asymmetries as well as the premiums paid in M&A deals. A very prominent example for a conflict of interest with respect to M&A activity is the fact that in a number of cases bidders and targets in Japan mandated the same financial advisor. This unusual arrangement could result in different wealth distribution effects for both bidder and target shareholders. The objective and contribution of our study is to analyze first the effects that the regulatory changes had on the quality of the financial and corporate governance system in Japan and in particular on M&A activities. Then we focus on agency problems and valuation effects for the unique cases where bidder and target share the same investment bank. From a more global perspective, the idea of our study is to investigate how long it takes until new political goals and regulatory changes are fully absorbed and reflected in the financial and corporate governance systems.

The introduction of the “Principles of Corporate Governance for Listed Companies” in 2004 was one factor in the effort to eliminate some conflicts of interest in the Japanese financial system and to position itself closer to a capital market oriented financial and corporate governance system. Following the recommendations of the Listed Company Corporate Governance Committee, the Tokyo Stock Exchange (TSE) introduced standards to “provide a necessary common base for recognition, thereby enhancing corporate governance through the integration of voluntary activities by listed companies and demands by shareholders and investors” (TSE, 2004). The main purpose of this development was the elimination, or at least drastic reduction, of cross shareholdings among listed companies, more transparency for investors, and the attraction of a much broader and more international shareholder base.

For a sample of 628 Japanese mergers and acquisitions (M&A) that occurred between 1990 and 2016, we analyze the effects that these regulatory reforms had on the financial market and corporate governance systems by comparing the periods before and after the implementation of the new regulation. We also investigate the phenomenon of having the same financial advisor in an M&A deal, which is unique to Japan. We begin our empirical study by examining the valuation effects for bidder and targets around the announcement date and find that for bidders these are positive but insignificant during both periods. In contrast, targets have significantly positive returns in the first period, supporting prior studies for Japan, and relatively higher returns in the second period, with similar magnitude as in other country studies. We also provide robust empirical evidence that bidder, target, and deal characteristics changed subsequently to the time of the corporate governance reforms around 2004. These results suggest that the market for corporate control in Japan advanced into the direction of capital market oriented corporate governance standards. In addition, we find that companies have less bank debt, indicating weakening bank-ties in the period from 2005 to 2016. For the cases where bidder and target have the same financial advisor, we do not find that either bidder or target benefit more or less from this constellation. Instead, we provide evidence that the

valuation effects for M&As where bidder and target share the same financial advisor do not differ significantly from transactions where bidder and target have different financial advisors.

We structure the rest of this study as follows. In the next section, we review the literature with respect to financial system and corporate governance issues in Japan and in section 3 we describe our sample and methodology. In section 4, we discuss and analyze the valuation effects of M&As in Japan, as well as the effects of corporate governance and regulatory reforms on bidder, target and deal characteristics. Section 5 contains our analysis of the very special cases when bidder and target share the same financial advisors. Section 6 concludes.

2. LITERATURE REVIEW

In this section, we review and discuss the corporate governance system for Japan (2.1), the ownership structure and the market for corporate control (2.2.) as well as the role of investment banks and financial advisors (2.3).

2.1 Corporate Governance System in Japan

Historically, the financial systems in Japan and Germany were regarded as bank-based systems (Charkham, 1994; Jackson and Moerke, 2005), whereas the financial systems in the US and the UK were viewed as market-based systems. For decades, these two pairs of countries constituted the opposite extremes of the spectrum of corporate governance systems. Since the beginning of the new millennium, both extremes progressed closer to each other. The US abandoned Glass-Steagall (Banking Act of 1933), ending the separation of investment and commercial banking. This resulted in a higher risk taking and the typical conflicts of interest in a universal banking system and consequently contributed to the financial crises in 2008. In contrast, Germany introduced new capital markets and corporate governance regulation, intended to reduce the dominance of universal banks. Consequently, German banks

abandoned their equity holdings in industrial companies, reduced their supervisory board memberships substantially and stopped proxy voting for their customers (Rapp and Strenger, 2015). This changed the structure of the German financial system during the next decade (Bessler and Drobetz, 2015). Initially, this also resulted in a corporate governance vacuum that active hedge funds tried to exploit (Bessler et al., 2015). The US and German cases suggest, however, that even well intended changes take some time to provide the favored effects, are not without risks, and are associated with high adjustment cost and agency problems as the behavior of market participants is difficult to predict. Subsequently, we will only compare the effects of the reforms in the Japanese corporate governance system to comparable ones in Germany.

Measured by the quality of corporate governance indices, Germany and Japan had similar starting points in developing new corporate governance systems (LaPorta et al., 1999; Aoyagi and Ganelli, 2017). In Japan, important regulatory reforms occurred in 1998 and 2004, intended to bring the financial system closer to a market-based organization. In the past, Japan had a strong bank-orientation as the Japanese main bank system had and still partly has as its strategy to develop and maintain a good long-term relationship rather than profit-orientation (Kester, 1992; Ueda, 2015). As in Germany, primarily banks financed the rebuilding of the industry after the World War II, and in the following decades, banks were mainly supporting the interests of creditors (Morck et al., 2000). Because of this company-bank interdependency and vice versa banks implemented monitoring systems preventing managers from making too risky investments. Typically, these would have increased shareholder values but at the disadvantage of debt holders (Hoshi et al., 1990). Eventually, the bank would even rescue the financially distressed companies to ensure that creditors were paid (Miwa and Ramseyer, 2002). Consequently, safety and growth was the dominant bank objective rather than shareholder value maximization as size and safety became the basic measure of success (Charkham, 1994).

Japanese banks, as in Germany, were not only debt holders but also equity holders in non-financial corporations (Berglöf and Perotti, 1994; Morck et al., 2000). Even though banks could not hold more than five percent of the shares of a non-financial company, the close relationship resulted in inside control and insider-dominated boards with strong bank influence (Morck et al., 2000). In contrast, industrial corporations were not restricted to the five percent hurdle, resulting in horizontal cross-holdings among industrial companies. Moreover, companies owning shares of their debtors and creditors formed large industrial groupings, called the *keiretsu* corporate networks, in which organizational lines became unclear (Kester, 1992). There were times in the late 1980s and early 1990s when these conglomerates comprised almost half of the top 200 Japanese companies (Weimer and Pape, 1999). The power of auditors and monitoring by outside shareholders in the *keiretsu* was relatively weak compared to independent corporations. Often the lead bank was the only monitor of the management, which rather internalized the market for corporate control (Berglöf and Perotti, 1994). Miyajima et al. (2017) analyze the interrelation of top executive turnover and close bank ties in Japan. Their results indicate that the main bank system served as disciplining mechanism for a company's management as they provided an effective monitoring. Despite external monitoring and the presence of institutional investors getting more important the main bank in Japan today still plays an important role in corporate governance (Miyajima et al., 2017).

As in most countries, the financial institutions themselves face tight national and international regulation. In the 1990s, however, Japanese banks still enjoyed their dominant status at home, as foreign banks and financial institutions could not easily engage in the Japanese banking and securities markets. This affected the structure of the financial and corporate governance systems. Together with Japanese banks, industrial companies were able to avert takeovers by foreign companies and investors. The high commitment to the corporate network with a strong feeling for being part of it (and agreement to keep everything stable) is one ex-

planation for the low M&A activity and the lack of hostile takeovers in Japan (Charkham, 1994; Puchniak and Nakahigashi, 2016).

To satisfy the demands of foreign investors, the regulators reacted with a bundle of regulatory changes (e.g. Securities and Exchange Law, Law on Foreign Securities Firms, Investment Trust Law, Law for Regulating Securities Investment Advisory Business, J-SOX). Consequently, foreign investors increased their stake in Japanese equities (Yoshikawa et al., 2007). Another major effect had the reform of the Japanese Commercial Code in April 2003, requiring firms to increase the number of outside auditors and to publish, among other things, detailed quarterly reports about parent as well as subsidiary entities (Nakamura, 2016). Nevertheless, the reforms allowed companies to choose between a statutory auditor and a committee system so that adopting Anglo-Saxon corporate governance practices took only partially and gradually place (Ovsiannikov, 2017). Still, the Japanese corporate governance structure is a system of institutional change and continuity at the same time, leading to some kind of an inconsistent corporate governance structure (Yoshikawa et al., 2007, Nakamura, 2016).

Not only the introduced legal changes such as the Japanese Commercial Code contributed to a new corporate governance system, but also the introduction of the “Principles of Corporate Governance for Listed Companies” by the Tokyo Stock Exchange in 2004 (Ovsiannikov, 2017) had a positive effect. They included more rights and equitable treatment for shareholders together with more transparency to attract a broader and more international shareholder base. These voluntary guidelines for listed companies aimed at reducing cross shareholdings. This strengthened the rights of outside shareholders, as they require protection against expropriation (TSE, 2004). As institutional investors are more interested in performance, rather than long-term relationships, the management should be motivated to maximize shareholder value. Consequently, institutional investors, especially foreigners, are a means to

create good corporate governance standards and to improve external monitoring (Yoshikawa et al., 2007).

2.2 Ownership Structure & the Market for Corporate Control

One objective of the regulatory and legal reforms in Japan in 2004 was to advance the corporate governance system and the market for corporate control to international standards by means of altering the ownership and monitoring structure. This meant reducing the equity cross-holdings between industrial companies, the investments of banks in industrial companies and vice versa as well as attracting more foreign institutional and corporate investors. The changes of the ownership structure of Japanese firms during the period from 1970 to 2016 we present in *Figure 1*:

Figure 1 – Development of Share Ownership by Type of Investor

Since the beginning of the 1990s, we observe substantial structural changes in the ownership structure of Japanese firms. Foreign investors holding equities at the Tokyo Stock Exchange increased considerably from 4.9% in 1970 to 30.1% in 2016. Additionally, private investors shifted some of their direct investments in Japanese companies (from 37.7% to 17.1%) to professionally managed diversified investment funds in trust banks (0.0% to 19.6%). Their fund managers act as institutional investors being in competition with each other for performance. This introduced some kind of competition in the market for corporate control. Most importantly, it replaced (from 32.9% to 11.0%) the ownership and the long-term and patient approach of the city and regional banks as well as insurance companies and investment banks (Schaede, 2008). The main bank system already had lost some importance due to the deregulation of the financial system caused by the “Japanese Big Bang” in 1998 (Gibson, 2000) in that large companies moved from bank debt to capital market debt. Never-

theless, the main bank, despite owning only 11.0%, continues to perform an important role in monitoring and disciplining management (Kuroki, 2003; Baxter, 2009; Miyajima et al., 2017). Overall, the holdings of financial institutions, foreigners, and business corporations remain rather stable at about 55% in the period from 2004 to 2016. Analyzing the statistics for 2016 (TSE, 2017) suggests that networks are still in place. Corporations continue to hold a substantial 22.1% in other corporations. Interestingly, the Bank of Japan advanced as an important shareholder recently as they became, for monetary policy reasons, the primary investor in ETFs in Japan (Barbon and Gianinazzi, 2017).

Viewed from a corporate governance perspective, domestic and international institutional investors own about 45% of the equities, which should be sufficient for creating an effective market for corporate control. Moreover, hedge funds activism surfaced in Japan at the beginning of the new millennium, completing the full spectrum of active shareholders and possibly improving the market for corporate control in Japan (Buchanan et al., 2012). In addition, corporations (22.1%) and main banks (11.0%) could also act as monitors, although for different reasons. However, these may be the weakest link in the market for corporate control due to the well-known inherent agency problems. Finally, private direct investors (17.1%), which classify as minority shareholders, exert less control but need good protection in an efficient corporate governance system (Franks et al., 2014). Given all these changes in ownership structure and monitoring capabilities and incentives, one would expect positive adjustments in the corporate governance system and a better-functioning market for corporate control in Japan.

Another reason for Japan progressing closer to a more shareholder-orientated market for corporate control was to prevent losing additional market share to London or New York. These capital markets are attractive to international investors, as they not only provide the legal framework but also the institutional setup for outside ownership (Cetorelli and Peristia-

ni, 2013; Franks et al., 2014). For this, policymakers reduced barriers of entry for foreign investors seeking acquisitions in Japan (Ahmadjian and Robbins, 2005). In general, buying and selling shares became easier for domestic and foreign corporations and institutional investors. As a result, Japan's financial markets turned more global at the end of the 1990s with a more active market for corporate control. Already starting in 1997, revisions of the Commercial Code made it possible to swap stocks as a method of payment to complete a merger. Thus, this offered corporations a variety of options for reorganization through M&As (Schaede, 2008). Further, stock market regulations changed to liberalize international capital flows and to facilitate friendly and hostile takeovers. These structural changes led to more M&A activity (*Figure 2*) and more competition among Japanese companies in the market for corporate control (Nakamura, 2016). As already mentioned, more and more foreign investors invested in Japan in the late 1990s. This resulted in some typical US investor strategies for creating shareholder value such as downsizing and asset divestiture (Ahmadjian and Robbins, 2005). All this reinforced the growth of Japan's capital market at the end of the 1990s (Milhaupt and West, 2003) and further since then.

2.3 Role of Investment Banks and Financial Advisors

All these regulatory changes offered pension funds and other institutional investors the opportunity to purchase more domestic and foreign equities. With less regulated and more competitive markets, commission structures and therefore bank income declined. Consequently, banks expanded their activities and acted not only as underwriters but also became advisors in acquisitions, generating the necessary fee income to compensate for the lower income in their traditional lines of business (Schaede, 2008). One of the main reasons why banks exist is that they obtain some competitive advantage over time by having access to and gathering private information, i.e. information that is not publicly available (Fama, 1980). Because of this pool of private information acquired through past transactions, the main bank maintains a

competitive advantage relative to “outside” institutions. Consequently, the main bank possesses more information about the company than any other potential bank or advisor. One of many agency problems is that banks may use this information advantage in an M&A, for example, by making this private information available to potential acquirers (Ivashina et al., 2009).

Table 1 lists the top domestic and foreign investment banks involved in M&As in Japan. According to the number of deals, Japanese domestic banks are dominating. These banks often belong to a larger conglomerate and as a result offer typical banking services such as business lending besides their advisory role in M&A transactions. Ranked by deal value, US investment banks are the leading advisors in M&A transactions during the 1998 to 2004 period. The investment banks Goldman Sachs & Co. and Bank of America/Merrill Lynch advise Japanese bidders with a total volume of over 300 billion USD (Panel A). The largest Japanese investment bank ranked by value is Nomura in third place with a volume of advised deals of nearly 100 billion USD. Ranked by the number of advised transactions Nomura ranks first place with 87 deals in total during the period from 1998 to 2004. In the latter period, 2005-2016 (Panel B), Nomura is the top investment bank. It advises the highest number of deals and has the highest advised transaction volume with almost 170 billion USD.

Table 1 – M&A League Tables of Transactions with Japanese Bidder

Banks acting as lenders naturally have the top priority of getting loans repaid. This could result in conflicts of interest between the bank as debt holder and the equity holders of the company (Higgins, 2013; Hoshi et al., 1990). In M&A transactions, this conflict of interest may become even more severe as the bank has an incentive to transfer its loan risk from weak to strong debtors (Ivashina et al., 2009). Consistently, Higgins (2013) finds for a sample of 133 mergers on the Tokyo Stock Exchange between 1990 and 2004 a negative relationship between acquirer’s wealth gains and their bank ties. The fact that the acquirer did not gain

from the deal seems to be consistent with the hypothesis of conflicts of interest between banks and their M&As clients (Higgins, 2013). For a sample of 28,234 mergers (1992-2005), Ivashina et al. (2009) find that firms with relative high bank lending are more likely to become takeover targets. One possible explanation, among others, is that the bank offered private information to clients that are potential acquirers. Consequently, the disciplining or governance role of banks and bank debt is likely to become even more controversial in the future as commercial banks are more and more involved in investment banking and merger activities (Ivashina et al., 2009). Thus, these are typical agency problems in a universal banking system. Whether the competition from foreign and especially US investment banks will mitigate these agency problems or even amplify them, is open for debate and needs further analysis.

Interestingly, only Japanese banks were involved in transactions in which a single financial advisor was acting on both sides of an M&A deal. These deals with common advisors hardly happen in any other country except Japan. However, most of these deals occurred before the corporate governance reforms in 2004. In section 5 we will closely examine M&A deals where the bank acts as advisors to both the bidder and the target, or, in general, maintaining simultaneously business relations with bidder and target. There are two possible perspectives how the banks' private information may affect the deal outcome. Kim et al. (2017) find that common bank relations lead to better mergers as combined shareholder value increases for mergers of bidders and targets headquartered in the US. They argue that common bank relations improve merger synergy as they help to reduce information asymmetry by collecting private information from targets and handing them over to the potential acquirer. In contrast, Mehrotra et al. (2011) find lower merger gains when merging firms share a common main bank. They explain their findings for a sample of 91 mergers between 1982 and 2003 with the fact that the bank primarily is motivated to protect its own interests as lender and does not act in the interest of bidder and target.

From the review and discussion in section 2, the focus of our research is on analyzing changes in M&A activity and M&A characteristics before and subsequent to the corporate governance and financial market reforms in Japan. Our two main research questions are as follows: First, to what extent did the various reforms result in more M&A activity and in a better market for corporate control in Japan. Second, given the unique situation Japan, why do Japanese firms use the same advisor in an M&A transaction and what are the benefits and costs when bidder and target share the same financial advisor.

3 DATA AND METHODOLOGY

3.1 Sample Description

Our sample covers M&A activities in Japan between January 1990 and December 2016. The data comes from the Thomson Eikon Dealscreener M&A database. All bidders are located in Japan; there are no geographical restrictions for the target. Further, bidders and targets are publicly traded companies. Before the announcement, the bidder has less than 50% of the target's shares and has to hold more than 50% of the shares after the M&A transaction, that is, the bidder is seeking control over the target. The takeover attempt has to be "completed". Transaction volume must be at least one million USD and there should be no takeover contest at that time. Self-mergers, transactions where bidder and target companies share the same ticker symbol, are excluded (23 observations less). Financials (SIC 6000-6999) are excluded as well. The final sample consists of 628 completed M&As of which 73 deals share the same financial advisor (11.6%).

In *Table 2* we present the detailed sample distribution by year, target country, and target industry differentiated by having or not having the same financial advisor in an M&A transaction. Panel A lists the number of M&A transactions for each year between 1990 and 2016. The highest level of deals with the same financial advisor occurs during the period be-

tween 1998 and 2004, which is the bull market period before the new economy period. Panel B contains the distribution of having the same financial advisor by target country. All 73 transactions with the same financial advisor occur within Japan, e.g. bidder and target are Japan-based companies. They also have all Japanese financial advisors and none of the US investment banks is involved in such deals. No cross-border deal taken from the database has the same financial advisor. Panel C presents the distribution of our sample per target industry, which is based on the 2-digit SIC code (Standard Industrial Classification). Most transactions take place in “Business Services”, “Electronic Equipment”, and “Chemicals”. Transactions with bidder and target sharing the same financial advisor most frequently occur in “Building Construction”, “Wholesale”, and “Business Services”.

Figure 2 – M&A Sample distribution per Year

Table 2 – Sample Distribution

It is worth mentioning that many key corporate governance information (shareholder rights, monitoring, majority shareholders, corporate governance score) only is available since 2004, which is after the reform of the Japanese Commercial Code and the introduction of the “Principles of Corporate Governance for Listed Companies”.

3.2 Methodology

In well-functioning financial markets, share prices instantaneously and fully reflect all available information (MacKinlay, 1997). To analyze the wealth effects associated with the M&A announcement, we calculate abnormal returns (AR) based on the market-adjusted returns model by subtracting the country's value-weighted total market index return r_m from the return of event firm i at day t :

$$(1) \quad AR_{i,t} = r_{i,t} - r_{m,t} .$$

We sum the abnormal returns over days $t-2$ to $t+2$ where day t is the M&A announcement date (event day) to obtain the five day cumulative abnormal return (CAR) for each firm i , which we then weight equally across all events:

$$(2) \quad \text{CAR}_{i,(-2,+2)} = \sum_{\tau=t-2}^{t+2} \text{AR}_{i,\tau} \text{ with } \text{CAR}_{(-2,+2)} = \frac{1}{N} \sum_{i=1}^N \text{CAR}_{i,(-2,+2)} .$$

Additionally, we sum CARs for a 41 day event window $(-20, +20)$ accordingly to check whether the results also hold for longer event windows but do not report them. To test for statistical significance, we employ a parametric t-test and a non-parametric Mann-Whitney U test when comparing the CARs of different bidder or target groups.

The long-term valuation effects for bidders and targets are analyzed with buy-and hold abnormal returns (BHAR) for a period up to one year after the M&A announcement. To calculate cumulative abnormal returns for the longer period, we estimate BHAR with:

$$(3) \quad \text{BHAR} = \frac{1}{N} \sum_{i=1}^N \left[\left(\prod_{t=1}^T (1 + R_{i,t}) \right) - \left(\prod_{t=1}^T (1 + R_{m,t}) \right) \right] .$$

We conduct several ordinary least squares (OLS) and two-stages least squares (2SLS) regressions at the time of deal completion as well as the size of the premium paid by the bidding company. Further, we estimate the likelihood of bidder and target choosing the same financial advisor in an M&A transaction with the following probit model:

$$(4) \quad \text{Prob}(Y = 1|\mathbf{x}) = \int_{-\infty}^{\mathbf{x}'\boldsymbol{\beta}} \phi(t) dt = \Phi(\mathbf{x}'\boldsymbol{\beta}) ,$$

where function $\Phi(\cdot)$ denotes the standard normal distribution function and Y is a binary variable that equals 1 for bidder and target having the same financial advisor in a single transaction, and zero otherwise. We estimate marginal effects for a one standard deviation change around the mean in case of a continuous variable, and for a change from zero to one for all dummy variables. In all regressions, we use heteroscedasticity-consistent standard errors (White, 1980).

4. EMPIRICAL RESULTS

In this section we present and discuss our empirical results with respect to the following research questions. First, what are effects of the new corporate governance and financial market regulation and the substantial increase in the foreign institutional ownership structure on the quality of the corporate governance system in Japan? Second, what are the reasons and what are the effects when bidder and target decide sharing the same financial advisor in an M&A, which occurs that often only in Japan. We start with the general analysis of the wealth effects (4.1) and continue with descriptive statistics of bidder, target and deal characteristics (4.2 and 4.3), all to get a better understanding of the effects that these regulatory and ownership structure changes had. Finally, we discuss and interpret our findings and present our conclusions on the effects of the corporate governance reforms in Japan (4.4).

4.1 Announcement Returns

We begin our analysis by investigating the valuation effect of merger and acquisition announcements for bidders and targets for different periods and different sample groups to obtain insights into the relevance of particular regulatory changes. For comparison, we include *Table 3*, which provides an overview of empirical results from previous studies of bidder and target announcement returns in Japan as well as in some other countries. First, we compare (*Table 4a*) the 5-day valuation effects (-2; +2) between the two periods before (1990-2004) and subsequent (2005-2016) to the introduction of new corporate governance regulations (Panel A). In line with prior research for M&As in Japan, we find small positive but insignificant abnormal bidder returns. The mean (median) abnormal returns are 0.97% (0.67%) for the 1990 to 2004 period and 0.59% (0.37%) for the 2005 to 2016 period. These results are comparable to the ones reported in Kang et al. (2000), Higgins and Beckmann (2006), and Inoue (2009). However, they are smaller than the findings of Alexandridis et al. (2010) who report significant abnormal bidder returns of 2.45%.

Table 3 – Overview Bidder and Target Announcement Returns

In contrast to other studies, we observe no significant CARs over the five-day event window. Consequently, the M&A announcements in both periods have no significant short-term effect on shareholder wealth, e.g. they do not create shareholder value for the bidder. Although the mean CARs in the 2005-2016 period are 0.38 percentage points lower than in the 1990-2004 period, the difference is insignificant, suggesting no change in valuation behavior over time. As we do not observe positive valuation effects for bidders, one conclusion is that, at least at the announcement date, these M&As either do not create value for the bidder. Consequently, all merger benefits are reflected in the premium paid to the target shareholders, and therefore the target captures the entire expected value creation. This is consistent with most of the empirical evidence in the literature for well-functioning capital markets (Bessler and Schneck, 2015). For the longer 41-day window (-20; +20), we find for the first period (1990-2004) positive abnormal returns for bidders with a mean (median) of 2.71% (2.18%) (*Table 4b*). In contrast, for the second “regulation reform” period (2005 to 2016) we observe much lower positive abnormal returns with a mean (median) of 1.18% (1.00%). However, the difference in CARs between the first and the second period is insignificant for the full sample. The charts in *Figure 3* clearly provide evidence that in the short run bidders in M&A transaction in Japan do not increase shareholder value neither in the first nor in the second period.

Table 4a – Bidder and Target Announcement Returns for the 5 day event window

Table 4b – Bidder and Target Announcement Returns for the 41 day event window

Figure 3: Cumulated Abnormal Return (CAR) for the 41 day event window

Turning now targets and analyzing the valuation effects in an acquisition, we find as expected significantly positive abnormal returns for both periods. In the second period (2005-

2016), the abnormal returns are relatively larger with a mean (median) of 9.19% (9.58%) compared to the 4.36% (4.46%) in the first period (1990-2004). These results are similar to the findings of Hanamura et al. (2011) and Inoue (2009), but they are a slightly higher than the CARs of 7.9% in Alexandridis et al. (2010). The return differences between the two periods are highly significant, indicating that the valuation effects for targets in Japan have increased after 2004. Whether this is due to the corporate governance reform or the involvement of foreign investors and consequently an improved market for corporate control requires some further analysis. For the longer 41-day event window (-20; +20) we find for targets for the first period (1990-2004) a significant mean return (median) of 8.19% (7.11%). For the second period (2005-2016), we observe for targets over the longer event window even higher positive abnormal returns with a mean return (median) of 12.53% (11.00%). Similar to the shorter event window (-2; +2), the return difference between the two periods are also significant for the longer event window (-20; +20). Consequently, at least the magnitude of the valuation effects is now more in line with the ones in US and European studies. The shift to higher premium paid by the bidder to the target between the first and the second period is clearly visible in Figure 3. Whether this is due to the corporate governance reforms requires some further analysis.

Second, we analyze a subgroup of our sample, focusing only on transactions with different financial advisors. Again, we compare the two periods 1990-2004 and 2005-2016. We find significantly positive abnormal returns for the target in both periods (Panel B) with a mean (median) of 3.91% (4.18%) for 1990 to 2004 and with significantly higher abnormal returns of 9.11% (9.56%) for 2005 to 2016. In contrast, bidders do not realize significant positive abnormal returns in neither period. For the longer event window (-20; +20), we find significant abnormal returns for the first period while the difference to the second period is insignificant. Hence, we do not observe significantly different results compared to the full sample analysis.

Overall, the shareholders' wealth effect for bidders and targets during the first period (1990-2004) are similar to the ones in prior studies for M&As in Japan. These results do change for targets after the implementation of new corporate governance rules and other regulatory changes for the second period (2005-2016). However, the valuation effects for targets are still smaller than in the US and in Europe. Although Japan introduced some new regulation in the market for corporate control and the ownership structure changed to a higher fraction of foreign and institutional investors with different corporate governance experiences, so far we only observe some minor changes, indicating that at best this may only be the beginning of a transformation to a more capital market oriented system. It appears that, for various reasons, the market for corporate control in Japan is still less aggressive and less competitive than in other countries such as the US or the UK. As a result, bidders in Japan do not offer an excessive premium (winner's curse) to gain control over the target. The fact that the wealth transfer from bidders to targets is smaller than in most other countries may suggest that the target shareholders expect lower synergies. Nevertheless, the target shareholders gain from the M&A announcement as they capture most of the acquisition benefits (Alexandridis et al., 2010).

We expect additional insights from the long-term valuation effects for bidders and targets by analyzing the buy-and hold abnormal returns (BHAR) for the first year post M&A announcement. Most important, our focus is on investigation whether we observe significant differences in financial performance for bidder and targets between the two periods, which are pre and post corporate governance and financial market reforms. Our previous analysis already suggests that the valuation effects for the targets, and therefore the premium paid by the bidder, are significantly higher in the second period (2004-2016). Interestingly, the valuation effects calculated with the help of the BHAR framework during the second period (yellow line) occur immediately and fully at the time of the announcement (*Figure 4*), which suggests that the market is able to discount all expected synergies from the M&A. The 8% positive

valuation effect (premium paid by the bidder) stays relatively constant during the first year, which also suggests that the positive and negative valuation effects for targets due to information balance, on average, are included during the first year. The first period (1990-2004) valuation effects for the targets are significantly different. There are only small positive valuation effects of about 2-3% at the announcement. These increase to about 9% after 6 months and decline back to 4% at the end of the first year. Accordingly, we observe a significant spread between the first and second period both, after the announcement and at the end of the first year. Thus, the results for the second period are consistent with target valuation effects and premiums paid in capital market oriented countries (Bessler and Schneck, 2016), suggesting that the reforms initiated moved Japan closer to such a system.

Figure 4: BHAR for Bidder and Target the first Year post M&A announcement

With respect to bidder valuation effects for the pre and post reform periods during the first year, we observe positive BHARs of about 3% during the first period and about 4% during the second period. Interestingly, the effects seem to diverge after about 9 months, about when the target returns during the first period start to decline. Whether this indicates that merger benefits are absorbed by the bidder requires some further analysis. In any case, the results for the second period are smaller and more in line with the empirical evidence for M&As in capital market oriented systems. We may gain additional insights by investigating the differences in bidder, target and deal characteristics between the pre and post reform periods. We turn to this in the next section.

4.2 Univariate Analysis of Bidder, Deal and Target Characteristics

To get a better understanding of the effects that the new corporate governance rules as well as the increase in foreign ownership have on M&A activities in Japan, we divide the full period (1990 to 2016) again into two sub-periods (1990-2004 and 2005-2016).

Hence, we begin our analysis for the full sample by comparing the two periods before (1990-2004) and after (2005-2016) the introduction of the new corporate governance regulation. If these changes had any relevant effect, we may observe some differences in takeover characteristics. Subsequently, we compare only deals in which bidders and targets have different financial advisors, to make sure that the differences in characteristics are due the corporate governance changes and not caused by the transactions where bidders and targets have the same financial advisor.

In *Table 5*, we provide the descriptive statistics for all bidder, target, and deal characteristics. Here we separately analyze and compare the characteristics of M&A transactions in Japan for the 1990-2004 and 2005-2016 periods, which are the time spans before and after the reform of the Japanese commercial code and the introduction of the “Principles of Corporate Governance for Listed Companies”. With respect to horizontal *keiretsu* membership, one of the two parties belongs to such an industrial grouping in about 35% of the deals during the first period (1990-2004). In contrast, during the second period (2005-2016), in only 26% of the M&A deals is one party a *keiretsu* member. For the full period, we observe lower proportions of *keiretsu* membership than reported by Weimer and Pape (1999) who report that almost half of all Japanese listed firms are member in inter-corporate networks in 1991. Further, the deal values in Japan are higher in the second period (2005-2016) compared to the first period (2000-2004), which is not surprising as deals values around the worlds have steadily increased (Betton et al., 2008; Alexandridis et al., 2017). The one-week takeover premium paid by the bidder before 2005 is about 8% and lower than the 29% that we observe subsequently. Thus, premiums converge to M&A transactions in other countries, which are roughly about 30% (Alexandridis et al., 2010; Bessler and Schneck, 2015). Whether this should be viewed as an adjustment towards capital market-oriented systems or more due to US investments banks being advisor, or to more international investors (directly or through mutual

funds) demanding more international corporate governance standards, requires further analysis.

Table 5 – Univariate Comparison of Deal, Bidder and Target Characteristics 1990-2004 vs. 2005-2016 (Complete Sample)

In contrast, the relative size of bidder and target differs only insignificantly between both periods. Between 1990 and 2004, the relative size (deal value divided by the size of the bidder) is about 26%, whereas it decreased to 21% between 2005 and 2016. The percentage of target shares held by the bidder before the offer is higher with 28.5% in the first period (1990-2004) compared to 22.1% in the second period (2005-2016). This may reflect the change in ownership structures toward more diversified institutional investors. However, relative to ownership structures in other countries holdings by insiders in form of banks and other corporations remain relatively high in Japan (Franks et al., 2014).

Further, takeovers in the first period (1990-2004) relative to the second period (2005-2016) take longer to complete (165 vs. 113 days). With respect to the method of payment, we also observe some substantial changes between both periods. Since 2005, 56% of M&A transactions in Japan are “cash-only” deals. Between 1990 and 2004, “cash-only” was the method of payment in only 15% of the transactions. “Stock-only” as payment form declines from 68% to 39% for the periods before and after 2005, respectively. This result is similar to the development for the US where the fraction of “stock-only” bids was about 55% in the 1990s and dropped to about 33% at the beginning of the millennium as interest rates were low and cash was easily available (Betton et al., 2008). Also Alexandridis et al. (2017) report the declining fraction of stock as a method of payment in the US as bidders paid in 56% of the deals with stock (1990 to 2009) and only in 38% of the cases subsequent to the financial crisis (2010 to 2015). They, too, explain the rise of cash deals with the changes in US monetary

policy, e.g. by the high availability of liquidity and low cost of debt (Alexandridis et al., 2017).

Hostile takeovers still seem uncommon in Japan as we observe only three hostile bids during the complete sample period (1990-2016). One explanation is that cultural differences continue to be important (Yoshikawa et al., 2007; Ueda, 2015). However, this may also indicate that the market for corporate control in Japan is still different and possibly less competitive than in capital market oriented systems. Thus, an interesting question is how much Japan still deviates from other countries such as the US or the UK, but also from Germany, which to some extent was similar to Japan for many decades and also embarked on some substantial reforms.¹

With respect to bidder characteristics, the leverage-ratios in the 1990-2004 period are higher with 29.5% relative to the 19.1% in the 2005-2016 period. This is significantly lower and may suggest a change from a higher to a lower bank-dependency. Bidders, on average, have a higher return on assets (ROA) between 2005 to 2016 compared to the 1990 and 2004 period as their profitability increases from 2.5% to 4.0%, which may also be explained by cultural and historical conditions (Kester, 1992). Furthermore, the cash holdings of bidders increased subsequent to the introduction of new corporate governance standards. This development is quite counterintuitive as improvements in corporate governance should lead to a reduction of agency problems by lowering cash holdings (LaPorta et al., 1999; Kato et al., 2017). Focusing now on targets, we observe that they also increased their cash holdings in the second period from 28.5% to 33.5%, an observation that supports previous studies (i.e. Aoyagi and Ganelli, 2017). They are younger (about 10 years compared to about 14 years) when

¹ Traditionally, Germany is known for its special universal banking and financial systems (Bessler and Drobetz, 2015) and its specific corporate governance system (Kotz and Schmidt, 2016), which both are faced with a considerable reform agenda within Germany and the European Union (Aoyagi and Ganelli, 2014).

announcing the takeover attempt between 1990 and 2004 compared to the 2005 to 2016 period. After 2004 (before 2005) targets have a significantly higher market-to-book (M/B) ratio of 1.9 (1.3) with a median of 1.0 (0.8) and a higher median ROA of 2.1% (1.0%). The leverage-ratio decreases from 28.0% to 23.0% from the first to the second period.

4.3 Univariate Results Robustness Check

As a robustness check, we again compare the two periods from 1990 to 2004 and 2005 to 2016, but this time focusing only on the transactions where bidders and targets have different advisors (*Table 6*), which is the usual case in most countries (see *Table 2*, Panel B). Deal characteristics differ similar to the whole sample (*Table 5*). The deal value increases after 2004, the premium is significantly higher and the time to deal completion decreases significantly from 162 to 108 days. *Keiretsu* membership of at least either bidder or target in the M&A decreases from 38% to 25%. Again, the relative number of deals with bidder and target being part of the same *keiretsu* group does not change significantly. The proportion decreases from 5% to 3%. In addition, bidder characteristics are different in a similar way as in the base scenario. In the second period (2005-2016), bidders have a lower leverage-ratio of 18.8% compared to 30.1%. They have higher cash-holdings (32.1% to 27.3%), higher ROA (from 2.7 to 3.9%), and are older when announcing the M&A.

Table 6 – Univariate Comparison of Deal, Bidder and Target Characteristics 1990-2004 vs. 2005-2016 (Only Announcements with Different Financial Advisor)

Focusing now on targets, we observe higher leverage ratios (28.0% to 22.7%) and lower cash holdings (28.0% to 33.6%) during the first (1990-2004) compared to the second period (2005-2016). The M/B ratio of 1.5 is slightly lower but is not significantly different in the second period. The differences in size and ROA of the target are a bit puzzling as the dif-

ference in mean is positive whereas the difference in median is negative and the other way round, respectively.

4.4. Interpretation of Univariate Results

Overall, the reform of the Japanese commercial code and the changes in corporate governance regulation affected the market for corporate control and thus the characteristics of M&A transactions. This development was not only triggered by legal changes but also by institutional transformation (Franks et al., 2014). Consistent with the findings of Kato et al. (2017), *Keiretsu* membership seems to have lost their importance and dominance over time. Instead, more and more foreign investors hold shares in Japanese corporations. Additionally, the proportion of debt and thus the bank-dependency has decreased, at least when measured by the leverage-ratio.

Despite all efforts, measured by available indexes, the improvements in corporate governance in Japan were low. In 1995, corporations in Japan were monitored by banks and investor protection was weak (LaPorta et al., 1999). After legal reforms and some corporate governance improvements, Japan's corporate governance quality is above the average of the OECD but still lower compared to most G-7 countries at the end of 2012 (Aoyagi and Ganelli, 2017). In line with these findings is the fact that Kato et al. (2017) observe declining cash holdings in the period of 1990 to 2000 which they attribute corporate governance improvements but report again an increase of cash holdings of Japanese firms since the beginning of the current century.

5. CONSEQUENCES OF HAVING THE SAME FINANCIAL ADVISOR

We now turn to analyzing the unique case where bidder and target share the same financial advisor, which we primarily observe in Japan. We focus only on the 1998 to 2004 period, as the phenomenon is most prominent during this period with about 80% of these

transactions occurring here. In the next section, we begin as before by analyzing announcement returns followed by comparing bidder, target and deal characteristics. In section 5.2, we analyze the impact of having the same financial advisor on the time of deal completion and in section 5.3 the influence on the size of the premium. We evaluate the likelihood that bidder and target choose the same financial advisor in a probit regression framework in section 5.4. Finally, we perform some robustness checks in section 5.5.

5.1. Announcement returns and bidder, target and deal characteristics

Regarding takeover announcement returns (*Table 4a*, Panel C), abnormal returns for the bidder are larger in transactions with the same financial advisor with a mean (median) of 1.70% (1.50%), but the difference is insignificant, suggesting that both groups are similar. The target shareholders abnormal returns are positive in both cases, but the difference is insignificant, again suggesting no difference between these two groups of M&As. Although we expected some differences due to agency problems disadvantaging either the bidder or target, we do not find empirical support for this notion, suggesting that this unique constellation also has a unique outcome. The same holds for our analysis of the longer event window (-20; +20). Again, the difference of abnormal returns between the two sub-groups is significant (*Table 4b*, Panel C).

Next, we analyze and compare bidder, target, and deal characteristics for the 1998 to 2004 period in which bidders and targets either employ the same or different financial advisors (*Table 7*). The deals with the same advisor have a higher relative size of 0.5 compared to 0.2, and “stock-only” is the dominant method of payment with 86% of the deals. Only 3% of the transactions with the same financial advisor are “cash-only” deals. Furthermore, bidders involved in these deals are smaller, have higher cash-holdings, with 1.4 a lower M/B ratio, and are younger compared to bidding companies in transactions where bidder and target do have different financial advisors. Target characteristics do not reveal significant differences.

Keiretsu membership does not differ significantly with regard to having the same financial advisor. In general, we find substantial and significant differences in deal characteristics in M&As with different and the same financial advisor, which requires some more detailed analysis.

Table 7 – Univariate Comparison of Deal, Bidder and Target Characteristics 1998-2004

Remarkably, the percentage of M&A transactions with bidders and targets sharing the same financial advisor is significantly lower in the second period, with the commercial code reforms and the increase in transparency and investor protection in place. Between 1990 and 2004, bidder and target share the same financial advisor in about 26% of the M&A transactions, whereas only 4% of the deals have the same advisor in the latter period (2005-2016). Interestingly, and to some surprise, only in a few M&A transactions bidder and target are members of the same horizontal *keiretsu* group. Moreover, there is no significant difference between the two periods. Hence, M&As within the *keiretsu* groups are less important and do not dominate our overall results and our findings for M&As with the same financial advisor.

It is worth mentioning that transactions with bidder and target sharing the same financial advisor quickly declined in Japan after 2004. Most recently, however, it has revived again with a number of deals between 2010 and 2013, which is an important observation, underscoring the need to better understanding the benefits and costs of using a common advisor in M&A transactions. We turn to analyzing this observation in the three next sections 5.2 to 5.4. In our analyses, we follow Agrawal et al. (2013) who investigate the reasons and consequences of having the same financial advisor in M&A transactions for the US. They concentrate on three different areas: time to deal completion, size of the premium, and determinants of bidder and target sharing the same Financial Advisor. We follow their approach and analyze these three aspects for M&As in Japan.

5.2 Consequence of having the same Financial Advisor on the time of deal completion

In *Table 8*, we present the different models concerning the time to complete the deal. We conduct several OLS regressions with and without using bidder and target controls and regressions limited to the period 1998-2004. Additionally, we use two-stage least squares (2SLS) regression models to identify the factors influencing the time of deal completion. The main explanatory variable of interest is the dummy variable for having the same financial advisor. We find that transactions with the same financial advisor do not take longer to complete. The sign of the coefficient in model I, V, and VI is positive, whereas the sign of the coefficient of the other three models is negative. All coefficients are insignificant which indicates that choosing the same financial advisor does not essentially influence the time to deal completion. Thus, we cannot support the findings for US M&As in Agrawal et al. (2013) that transactions with the same financial advisor take longer to complete in Japan.

Table 8 – OLS and 2SLS Regressions on time to deal completion

What we do find, however, is that the deal value and the method of payment affect the time of deal completion. Larger deals take longer to complete, whereas deals with cash being the main method of payment require a shorter time span for completion. This seems quite intuitive, as larger deals should be more complex and as more difficult issues demanding detailed solutions. The results for the choice of the method of payment are also in accordance with financial theory as the bidder alone bears the risk in a “cash-only” transaction. Thus, the target shareholders should be less inclined to vote against the transaction. Obviously, target shareholder can always sell their shares before the transaction is completed or sell the shares of the bidder they received after the deal is completed, suggesting that the method of payment should have only a minor effect (Bessler et al., 2011).

5.3 Consequence of having the same Financial Advisor on the size of the premium

One interesting aspect of our study is analyzing deals with common advisors, e.g. M&A transactions in which the same investment bank acts as advisor to both, bidder and target. In most countries, this constellation is unconceivable as this violates good corporate governance. (see article) Because of this, bidder or targets choose quickly the best advisors available on the market to have them on their side and not against them, advising the other side. The reason is that we would usually expect some kind of agency problem in that the terms of the deal disadvantage some shareholders being either on the bidder or target side. However, it is also possible that this construct is the most cost efficient way of closing a deal, making all participants better off, e.g. if the advisor has sufficient private information on both bidder and target and both bidder and target have some trust in the advisor.

However, with respect to the size of the premium, our results are not as straight forward as expected. We find at least some evidence that the premium is higher in transactions where the method of payment is “cash-only”, as four out of six models reveal significant positive coefficients for the explanatory “cash-only” dummy (*Table 9*). Our results also indicate that the deal value in general has some effects on the size of the premium as we find in three out of six models that deals with a higher value also provide higher premiums. This is consistent with the findings of Agrawal et al. (2013). Overall, having the same financial advisor seems to have, if anything, a weak influence on lowering the premium, as we only find support for that in the two 2SLS models where the coefficient for having the same financial advisor has a negative sign.

Table 9 – OLS and 2SLS Regressions on the size of the premium

The reasoning behind this is that the common advisor should favor the bidder, as the bidder is the surviving company. It also wants the deal completed as investment banks earn the fee only when the deal is finalized. Consequently, the common advisor will recommend the bidder to bid low while encouraging the target to accept the bid (Agrawal et al., 2013).

Therefore, the premium in a transaction where bidder and target share the same financial advisor should be lower than in deals with separate advisors. Finally, the results indicate that the bidding company is less likely to pay a higher premium if the target has a high leverage or is financially constrained. This should always be the case if the capital structure of the newly merged company results in a downgrade of the debt of the newly merged firm and eventually ends up in financial distress (Betton et al., 2008; Aktas et al., 2017; Bhabra et al., 2017). The managers of the bidding company should value the target at a lower level and then be less willing to pay a high premium.

5.4 Determinants of bidder and target sharing the same Financial Advisor

If the choice of having the same financial advisor favors more the bidder than the target, then the question is which of the variables have any explanatory power on the selection of this scenario. Focusing on our probit regression results (*Table 10*), we find that two variables influence the choice of sharing the same financial advisor in M&A transaction: relative size and market-to-book ratio of the target. A transaction with a higher relative size (deal value divided by the size of the bidder) between bidder and target has a higher probability that the bidder and the target share the same financial advisor. Furthermore, it seems less likely that bidder and target share the same financial advisor if bidder and target are highly valued by the market in form of high market-to-book ratios. This seems especially the case for the target valuation. As the target's profitability (Return on Assets) insignificantly influences the choice of sharing the same financial advisor, it seems that these mergers do not fall into the group of rescue mergers.

Table 10 – Probit Regressions on same financial advisor

5.5 Robustness Checks

As robustness check, we test the following alternative variable definitions in the regression analysis. We use (1) the percentage of cash payment instead of an all-cash dummy; (2) a toehold dummy in place of the percentage of target shares held prior to the announcement; (3) the natural logarithm of market value of the target rather than the deal value; (4) debt to enterprise value instead of book leverage (debt to total assets); and finally (5) the return on equity in place of return on assets. These alternative control variables should not change the results substantially (Leamer, 1983).

The results are robust to all of these alternative definitions and support our findings. All significant independent variables remain significant. Further, when *keiretsu* membership is included in the regressions – it has no significant influence on the dependent variable in each regression, and does not change the significance of the independent variables (not reported).

6. CONCLUSION

In this study, we analyze for the period from 1990 to 2016 the effects that reforms of corporate governance regulations and changes in ownership structure have on the market for corporate control in Japan. Regulatory reforms and a higher presence of foreign institutional investors resulted in an increase in M&A activity since the late 1990s. However, the changes in the market for corporate control did not result in a higher proportion of hostile takeovers as they still seem not welcomed in Japan. We provide evidence that deal, bidder, and target characteristics in M&As changed significantly after the introduction of corporate governance reforms and foreign investors are becoming more active in Japan. In contrast, cross-shareholdings in Japan declined around the turn of the millennium but stayed rather stable during the past ten years. Bank debt-dependence is also lower but the main banks continue playing an important role in monitoring. Analyzing wealth effects around M&A announcements in Japan, we find evidence that bidder returns only changed insignificantly between

both periods but targets gain significantly, in that the positive abnormal returns at announcement increase from 3.9% in the 1990-2004 period to 9.11% in 2005-2016 period. Consequently, the reforms towards a more capital market-oriented financial system is slow and limited. Whether this relatively slow development is attributable to the economic problems in Japan during the last two decades requires further analysis. Nevertheless, corporate governance structures and finance patterns of Japanese companies made some progress towards a more capital market oriented regime, but they still differ considerably from the US, UK or even Germany.

Regarding the time to deal completion and the size of the premium in an M&A transaction it seems that deal value and the method of payment are the most relevant factors in Japan. Deals with a higher deal value also require a higher premium and take longer to complete. Deals with “cash” as the method of payment are expected to close faster than deals where “stock” is the dominant method of payment. With respect to the phenomena of bidder and targets sharing the same financial advisor, which is unique by international standards, we observe a decline in the number of cases after the introduction of new corporate governance rules. However, we do not find significant changes in most other dimensions. For example, we do not find that these takeovers take longer to complete in general, which is in contrast to Agrawal et al. (2013) for the US. We also do not find evidence that the bidder gains by paying a lower premium. The only relevant differences in characteristics we observe are the relative size between bidders and targets as well as the valuation (M/B ratio) of the target. Deals with higher relative size are more likely having the same financial advisor and deals where the target has a high M/B ratio are less likely having the same financial advisor.

Overall, we provide empirical evidence for some positive effects of the corporate governance reforms in Japan in that we observe a higher M&A activity and a more active market for corporate control since 2004. Hence, the regulatory changes had important effects on the

financial and corporate governance system in Japan and in particular on M&A activities. However, we also observe that these changes are unstable and adjustments to international standards are still in progress and need additional time to be completed. Thus, our results suggest that, in general, it takes some time until new political goals and regulatory changes are fully absorbed and reflected in the financial and corporate governance systems of a country. Japan is no exception to this rule. Further, we provide evidence that the valuation effects for targets significantly adjusted to a higher level in the second period compared to the first period. Interestingly, M&As where bidder and target share the same financial advisor do not differ significantly in many aspects and in valuation effects from transactions where bidder and target have different financial advisors. These results suggest that the capital market participants do not expect or do not value potential conflicts of interest in these deals. This is surprising and requires additional analysis, which we leave for future research.

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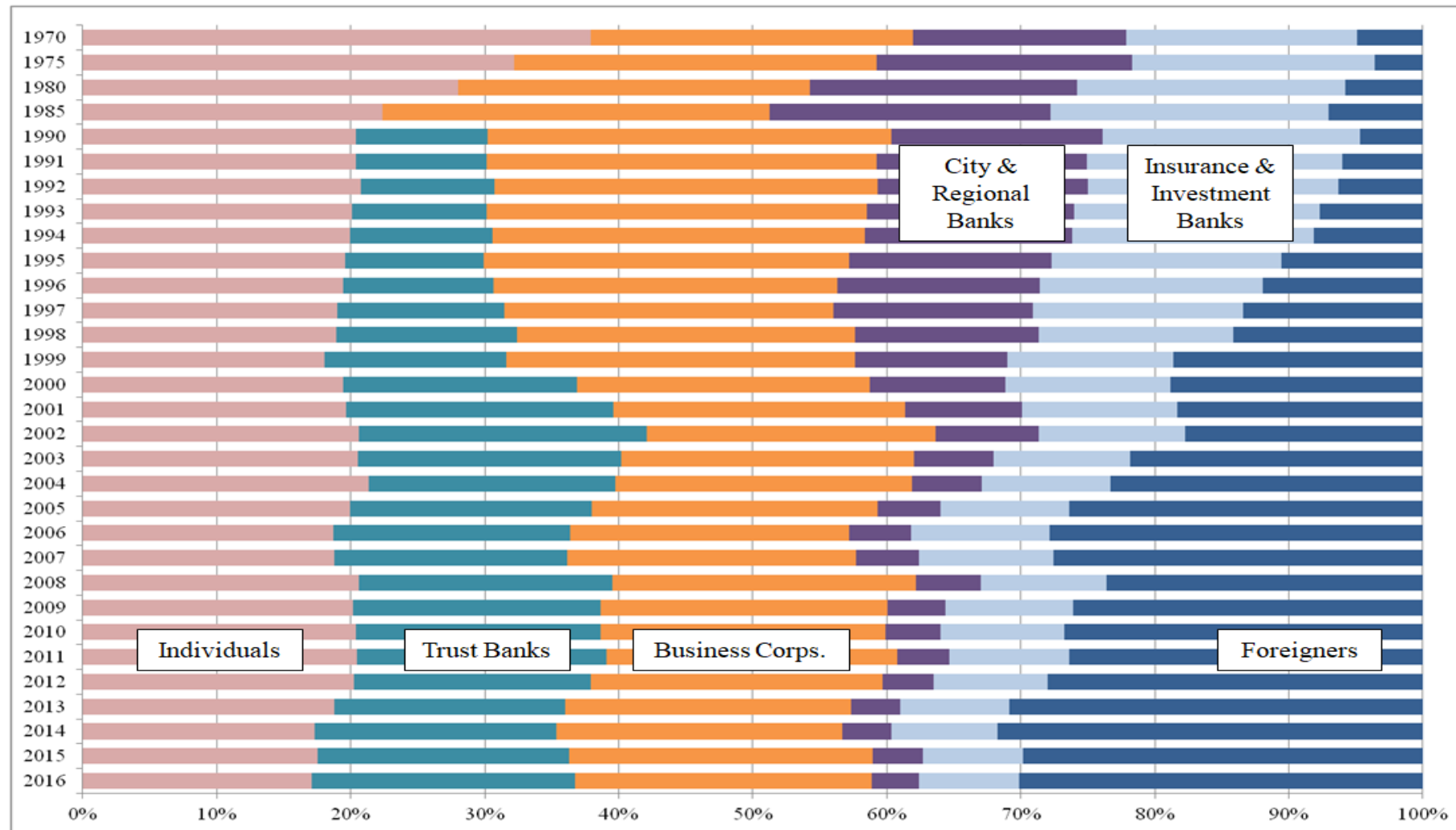
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Tables and Figures

Figure 1: Development of Share Ownership by Type of Investor

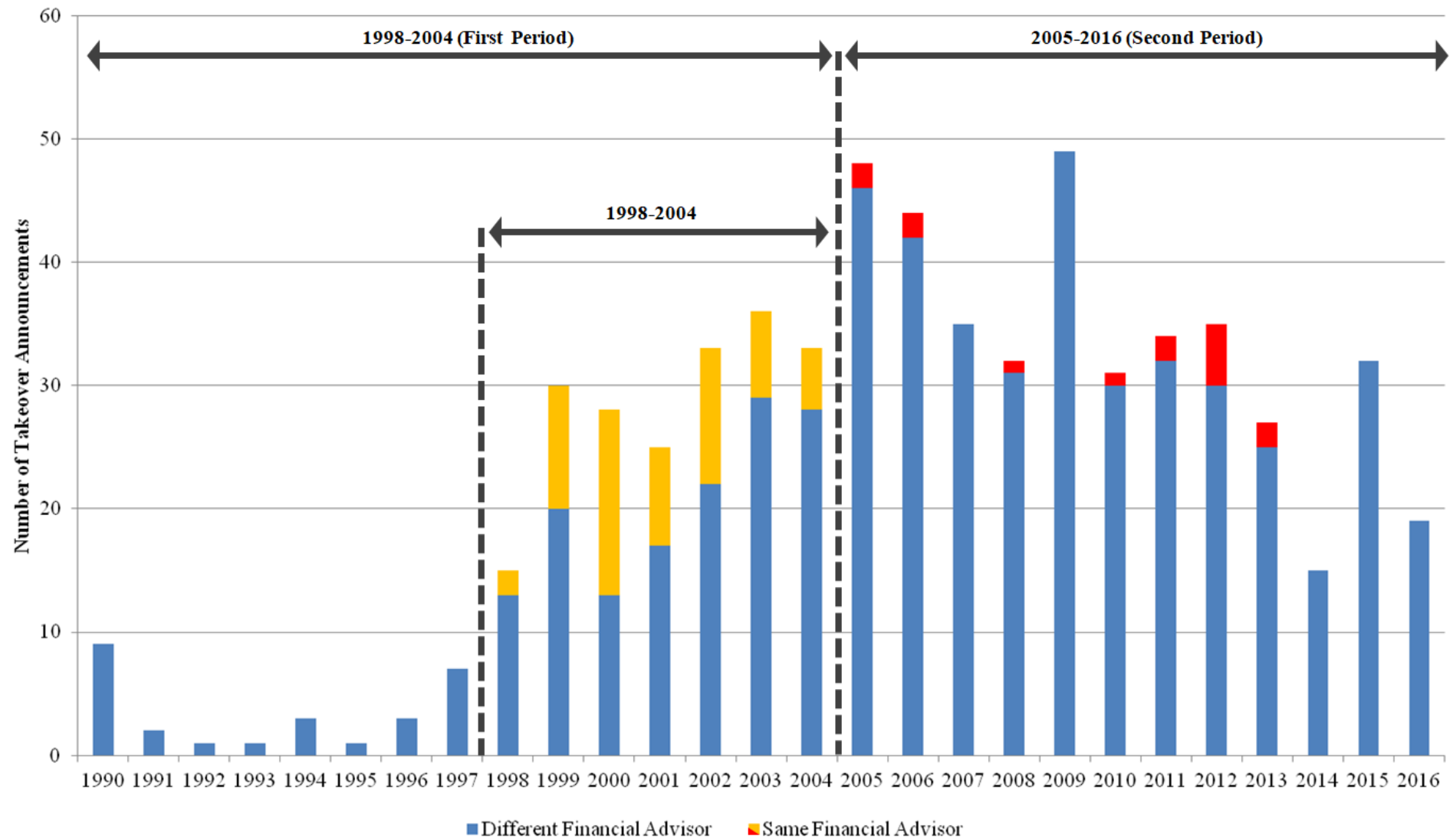
This figure presents the development of the ownership structure at the Tokyo Stock Exchange (TSE) in % of total market capitalization, as of March each year.



Source: Tokyo Stock Exchange (2017). Before 1990, one bar captures a period of five years. From 1990 on, every single year is depicted.

Figure 2: M&A Sample distribution per Year

This figure presents the distribution of the total sample per year as well as the takeover announcements having the same financial advisor in Japan.



Source: Thomson Reuters Dealscreener.

Figure 3: Cumulated Abnormal Return (CAR) for the 41 day event window

This figure presents the CARs of M&A for the total sample for the periods 1990-2004 and 2005-2016 for bidders and targets in Japan.

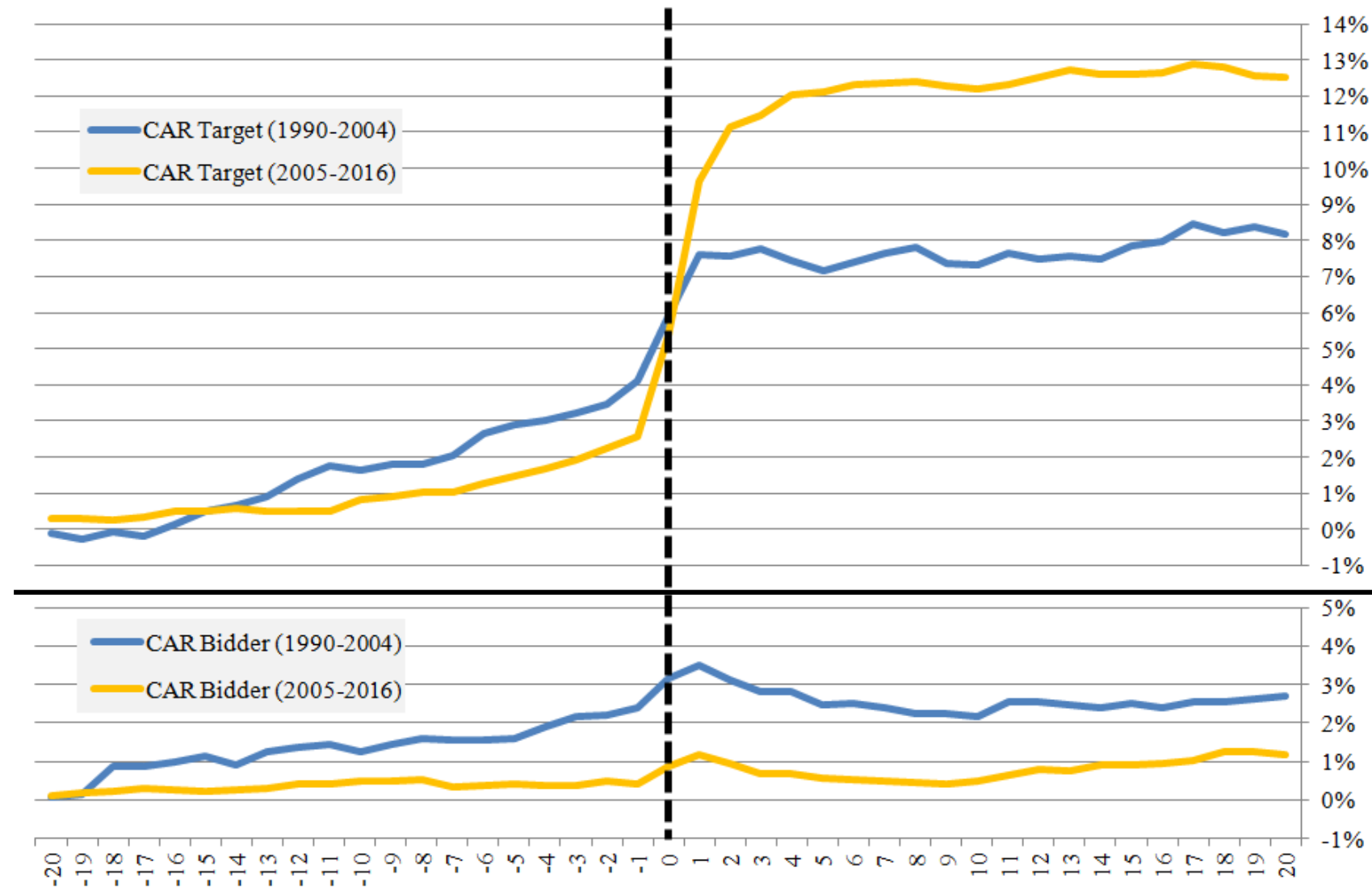


Figure 4: Buy-and-Hold Abnormal Return (BHAR) one year after the announcement

This figure presents the BHARs of M&A for the total sample for the periods 1990-2004 and 2005-2016 for bidders and targets in Japan.

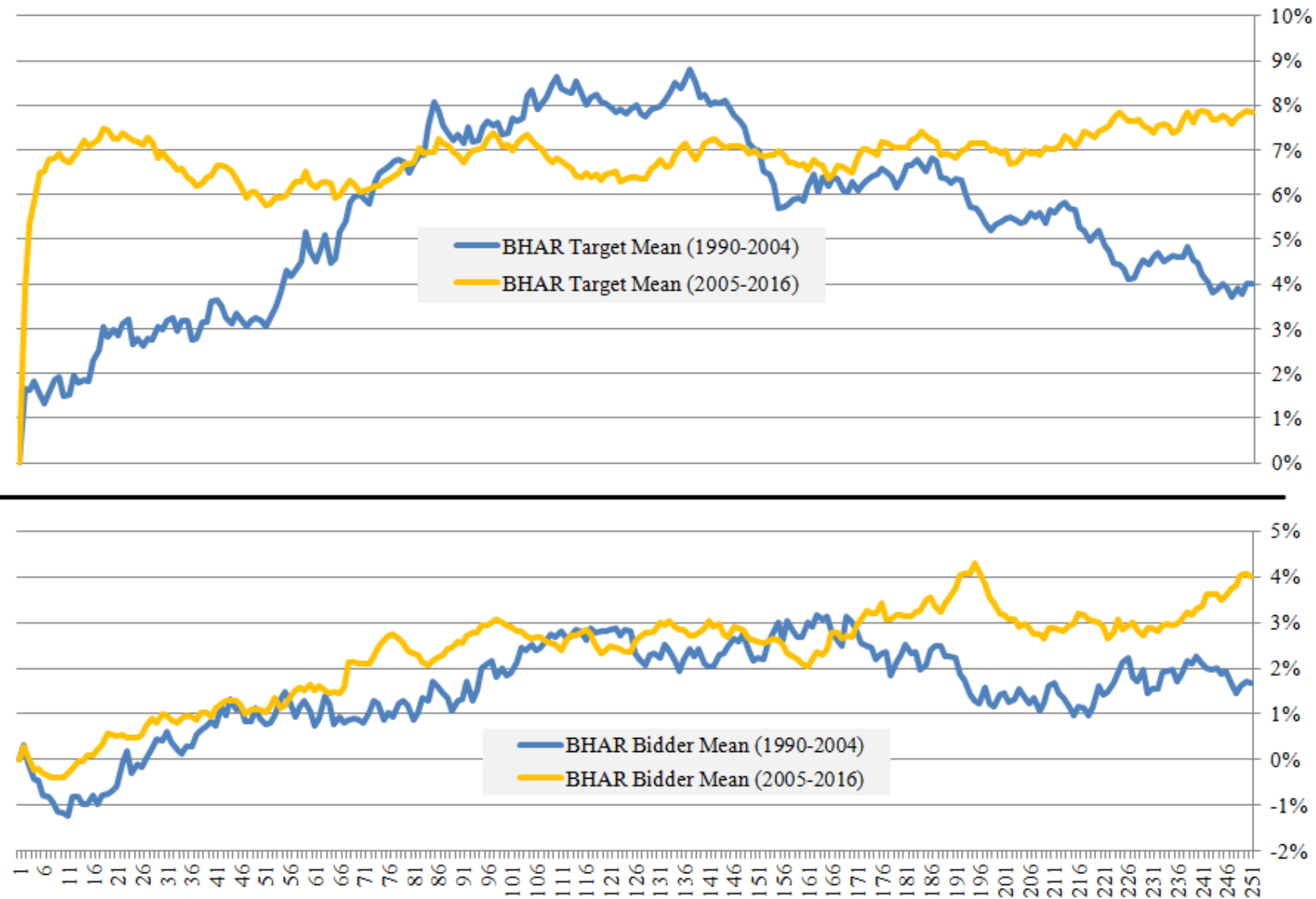


Table 1: M&A League Tables of Transactions with Japanese Bidder

| Panel A: Investment Banks and Financial Advisors in Japanese M&As (1998-2004) | | | | | |
|--|------------------------------------|--------------------|---------------------------|----------------------------------|--|
| Rank | Name | Deals N | Market Share % | Rank Value in \$ Mil. | Same Advisor Transactions N |
| 1 | Goldman Sachs & Co | 14 | 69.20 | 199,648.13 | 0 |
| 2 | BoA Merrill Lynch | 12 | 43.50 | 125,449.92 | 0 |
| 3 | Nomura* | 87 | 34.20 | 98,662.28 | 21 |
| 4 | Daiwa Sec. Group Inc* | 32 | 29.80 | 85,972.46 | 8 |
| 5 | JP Morgan | 9 | 28.10 | 81,064.02 | 0 |
| 6 | Arthur Andersen | 2 | 24.60 | 70,856.24 | 0 |
| 7 | Morgan Stanley | 9 | 13.60 | 39,295.79 | 0 |
| 8 | Mizuho Fin. Group* | 29 | 11.40 | 32,995.04 | 10 |
| 9 | Mitsubishi UFJ Fin. Group* | 25 | 9.40 | 26,990.65 | 3 |
| 10 | Citi | 5 | 3.30 | 9,382.58 | 0 |
| 11 | SMFG (Nikko Cordial)* | 34 | 2.10 | 5,952.23 | 19 |
| 12 | Shin Nihon Ernst&Young* | 9 | 1.30 | 3,650.26 | 1 |
| 13 | KPMG* | 18 | 1.20 | 3,590.29 | 1 |
| 14 | Deloitte | 7 | 0.70 | 2,163.52 | 0 |
| 15 | GCA Corp | 4 | 0.60 | 1,703.20 | 0 |

| Panel B: Investment Banks and Financial Advisors in Japanese M&As (2005-2016) | | | | | |
|--|----------------------------------|--------------------|---------------------------|----------------------------------|--|
| Rank | Name | Deals N | Market Share % | Rank Value in \$ Mil. | Same Advisor Transactions N |
| 1 | Nomura* | 189 | 44.30 | 169,457.41 | 3 |
| 2 | BoA Merrill Lynch | 26 | 40.10 | 153,545.24 | 0 |
| 3 | Mizuho Financial Group* | 114 | 37.70 | 144,213.71 | 9 |
| 4 | JP Morgan | 22 | 36.80 | 140,708.27 | 0 |
| 5 | Morgan Stanley | 60 | 35.20 | 134,751.71 | 0 |
| 6 | Goldman Sachs & Co | 32 | 32.00 | 122,478.95 | 0 |
| 7 | Daiwa Sec. Group Inc* | 135 | 26.40 | 100,987.79 | 1 |
| 8 | UBS | 15 | 24.90 | 95,375.93 | 0 |
| 9 | Lazard | 11 | 21.20 | 81,260.28 | 0 |
| 10 | Mitsubishi UFJ Fin. Group | 51 | 17.70 | 67,723.49 | 0 |
| 11 | Citi | 28 | 15.60 | 59,825.96 | 0 |
| 12 | SMFG (Nikko Cordial) | 101 | 15.10 | 57,615.14 | 0 |
| 13 | Deutsche Bank | 10 | 14.10 | 54,126.98 | 0 |
| 14 | The Raine Group LLC | 2 | 13.70 | 52,390.71 | 0 |
| 15 | Credit Suisse | 9 | 8.10 | 31,148.34 | 0 |

This table presents the top 15 investment banks and financial advisors involved in takeovers with Japanese bidders in the period 1998-2004, the period common advisory seems to occur quite often, and the period 2005-2016, the period after various corporate governance changes. * denotes the investment bank which is involved in transactions where bidder and target share the same financial advisor. Nikko Cordial became a wholly owned direct subsidiary of Sumitomo Mitsui Financial Group (SMFG) in October 2016. Total market share sums up to more than 100% as bidder and target can have multiple financial advisors in one transaction.

Table 2: Sample Distribution

| Panel A: M&A announcements per year | | | | | |
|--|-------------------|---------------|--------------|---------------|------------|
| Year | Japan | | | | |
| | Different Advisor | | Same Advisor | | Total |
| | N | % | N | % | N |
| 1990 | 9 | 100.00% | 0 | 0.00% | 9 |
| 1991 | 2 | 100.00% | 0 | 0.00% | 2 |
| 1992 | 1 | 100.00% | 0 | 0.00% | 1 |
| 1993 | 1 | 100.00% | 0 | 0.00% | 1 |
| 1994 | 3 | 100.00% | 0 | 0.00% | 3 |
| 1995 | 1 | 100.00% | 0 | 0.00% | 1 |
| 1996 | 3 | 100.00% | 0 | 0.00% | 3 |
| 1997 | 7 | 100.00% | 0 | 0.00% | 7 |
| 1998 | 13 | 86.67% | 2 | 13.33% | 15 |
| 1999 | 20 | 66.67% | 10 | 33.33% | 30 |
| 2000 | 13 | 46.43% | 15 | 53.57% | 28 |
| 2001 | 17 | 68.00% | 8 | 32.00% | 25 |
| 2002 | 22 | 66.67% | 11 | 33.33% | 33 |
| 2003 | 29 | 80.56% | 7 | 19.44% | 36 |
| 2004 | 28 | 84.85% | 5 | 15.15% | 33 |
| 2005 | 46 | 95.83% | 2 | 4.17% | 48 |
| 2006 | 42 | 95.45% | 2 | 4.55% | 44 |
| 2007 | 35 | 100.00% | 0 | 0.00% | 35 |
| 2008 | 31 | 96.88% | 1 | 3.13% | 32 |
| 2009 | 49 | 100.00% | 0 | 0.00% | 49 |
| 2010 | 30 | 96.77% | 1 | 3.23% | 31 |
| 2011 | 32 | 94.12% | 2 | 5.88% | 34 |
| 2012 | 30 | 85.71% | 5 | 14.29% | 35 |
| 2013 | 25 | 92.59% | 2 | 7.41% | 27 |
| 2014 | 15 | 100.00% | 0 | 0.00% | 15 |
| 2015 | 32 | 100.00% | 0 | 0.00% | 32 |
| 2016 | 19 | 100.00% | 0 | 0.00% | 19 |
| Total | 555 | 88.38% | 73 | 11.62% | 628 |

| Panel B: M&A announcements per Target Country | | | | | |
|--|-------------------|---------------|--------------|---------------|------------|
| Target Country | Japan | | | | |
| | Different Advisor | | Same Advisor | | Total |
| | N | % | N | % | N |
| Australia | 7 | 100.00% | 0 | 0.00% | 7 |
| Belgium | 1 | 100.00% | 0 | 0.00% | 1 |
| Canada | 2 | 100.00% | 0 | 0.00% | 2 |
| Cayman Islands | 1 | 100.00% | 0 | 0.00% | 1 |
| France | 5 | 100.00% | 0 | 0.00% | 5 |
| Germany | 1 | 100.00% | 0 | 0.00% | 1 |
| Hong Kong | 3 | 100.00% | 0 | 0.00% | 3 |
| India | 1 | 100.00% | 0 | 0.00% | 1 |
| Italy | 1 | 100.00% | 0 | 0.00% | 1 |
| Japan | 473 | 86.63% | 73 | 13.37% | 546 |
| Malaysia | 3 | 100.00% | 0 | 0.00% | 3 |
| Netherlands | 2 | 100.00% | 0 | 0.00% | 2 |
| Poland | 1 | 100.00% | 0 | 0.00% | 1 |
| Singapore | 6 | 100.00% | 0 | 0.00% | 6 |
| South Africa | 2 | 100.00% | 0 | 0.00% | 2 |
| South Korea | 2 | 100.00% | 0 | 0.00% | 2 |
| Sweden | 2 | 100.00% | 0 | 0.00% | 2 |
| Switzerland | 1 | 100.00% | 0 | 0.00% | 1 |
| Thailand | 1 | 100.00% | 0 | 0.00% | 1 |
| UK | 13 | 100.00% | 0 | 0.00% | 13 |
| United States | 27 | 100.00% | 0 | 0.00% | 27 |
| Total | 555 | 88.38% | 73 | 11.62% | 628 |

| Panel C: M&A announcements per Target Industry | | | | | |
|---|-------------------|---------------|--------------|---------------|------------|
| Target Industry | Japan | | | | |
| | Different Advisor | | Same Advisor | | Total |
| | N | % | N | % | N |
| Business Serv. | 74 | 92.50% | 6 | 7.50% | 80 |
| Electronic Equ. | 39 | 88.64% | 5 | 11.36% | 44 |
| Chemicals | 37 | 92.50% | 3 | 7.50% | 40 |
| Ind. Machinery | 38 | 92.68% | 3 | 7.32% | 41 |
| Wholesale Trade | 35 | 94.59% | 2 | 5.41% | 37 |
| Misc. Wholesale | 20 | 74.07% | 7 | 25.93% | 27 |
| Food Prod. | 22 | 88.00% | 3 | 12.00% | 25 |
| Measur., Analyz. | 20 | 95.24% | 1 | 4.76% | 21 |
| Food Stores | 17 | 85.00% | 3 | 15.00% | 20 |
| Building Constr. | 11 | 55.00% | 9 | 45.00% | 20 |
| Metal Industry | 14 | 82.35% | 3 | 17.65% | 17 |
| Misc. Retail | 18 | 100.00% | 0 | 0.00% | 18 |
| Paper Products | 12 | 92.31% | 1 | 7.69% | 13 |
| Transport. Equ. | 14 | 100.00% | 0 | 0.00% | 14 |
| Stone,Clay,Glass | 10 | 71.43% | 4 | 28.57% | 14 |
| Eating, Drinking | 12 | 85.71% | 2 | 14.29% | 14 |
| Sp. Construction | 12 | 100.00% | 0 | 0.00% | 12 |
| Fab. Metal Prod. | 10 | 83.33% | 2 | 16.67% | 12 |
| Warehousing | 12 | 100.00% | 0 | 0.00% | 12 |
| Engin. Research | 10 | 83.33% | 2 | 16.67% | 12 |
| Textile Mill Pro. | 11 | 100.00% | 0 | 0.00% | 11 |
| Communications | 9 | 100.00% | 0 | 0.00% | 9 |
| Apparel, Acces. | 8 | 88.89% | 1 | 11.11% | 9 |
| Home Furniture | 8 | 88.89% | 1 | 11.11% | 9 |
| Motion Pictures | 9 | 100.00% | 0 | 0.00% | 9 |
| Other | 73 | 82.95% | 15 | 17.05% | 88 |
| Total | 555 | 88.38% | 73 | 11.62% | 628 |

This table presents the distributional characteristics of our sample. Deals with the same advisor are takeover deals where bidder and target consult the same financial advisor or the same investment bank. Panel A reports the number of deals with the same advisor in each year. Panel B differentiates the deal announcements by target country. Panel C presents the distribution of the sample by target industry based on the 2-digit SIC code.

Table 3: Overview Bidder and Target Announcement Returns

| Cumulated Abnormal Returns (CARs) in Japan and around the World | | | | | | | |
|---|------------------|----------------------|------------------------|------------------------|-----------------|-----------------|-----------------|
| Study | Years | Country/Region | No of obs. (Bidder) | No of obs. (Target) | Event Window | CAR Bid- der | CAR Target |
| Our research | 1990-2004 | Japan | 178 | 178 | [-2;+2] | 0.97%* | 4.36%*** |
| | 2005-2016 | Japan | 369 | 369 | [-2;+2] | 0.59%* | 9.19%*** |
| Kang (1993) | 1975-1988 | Japan | 119 | 102 | [-1;+1] | 0.51%* | 9.42%*** |
| Pettway/Yamada (1986) | 1977-1984 | Japan | 50 | 16 | [-1;+1] | 0.82% | 0.07% |
| Kang et al. (2000) | 1977-1993 | Japan | 154 | - | [-1;+1] | 0.9%* | - |
| Mehrotra et al. (2011) | 1982-2003 | Japan | 91 | 91 | [-2;+2] | -0.01% | -0.02 |
| Higgins/Beckmann (2006) | 1990-2000 | Japan | 85 | - | [-1;+1] | 1.70% | - |
| Alexandridis et al. (2010) | 1990-2007 | Japan | 182 | 182 | [-2;+2] | 2.45%*** | 7.86%*** |
| Schaik (2008) | 1993-2003 | Japan | 136 | - | [-1;0] | 1.37% | - |
| Zrilic/Hoshino (2007) | 1993-2005 | Japan | 62 | - | [-1;+1] | 1.19%** | - |
| Hanamura et al. (2011) | 2000-2007 | Japan | 377 | 377 | [-1;+1] | 1.17%*** | 8.15%*** |
| Inoue (2009) | 2003-2007 | Japan | 379 | 382 | [-1;+1] | 1.16%** | 8.18%** |
| Inoue (2013) | 2003-2010 | Japan | 731 | - | [-1;+1] | 1.75%*** | - |
| Betton et al. (2008) | 1980-2005 | US | 15,987 | 9,298 | [-1;+1] | 14.61% | 0.01% |
| Mager/Meyer-Fackler (2017) | 1981-2010 | Germany | 338 | - | [-1;+1] | 0.00% | - |
| Gerke et al. (1995) | 1987-1992 | Germany | 105 | 19 | [-1;+1] | -0.06 | 2.24%*** |
| Alexandridis et al. (2010) | 1990-2007 | Europe (excl. UK) | 212 | 212 | [-2;+2] | 1.65%*** | 9.51%*** |
| | 1990-2007 | UK | 354 | 354 | [-2;+2] | -1.58%*** | 14.7%*** |
| | 1990-2007 | US | 3,171 | 3,171 | [-2;+2] | -1.34%*** | 21.13%*** |
| Martynova/Renneboog (2006) | 1993-2001 | Germany | 358 | 358 | [-1;+1] | 0.73%* | 4.44%*** |
| | 1993-2001 | Europe | 2,109 | 760 | [-1;+1] | 0.72%*** | 12.47%*** |

Table 4a: Bidder and Target Announcement Returns for the 5 day event window

| Cumulated Abnormal Returns (CARs) around the Takeover Announcement | | | |
|---|-----------------------------|-----------------------------|-----------------|
| Panel A | | | |
| | 1990-2004 | 2005-2016 | Difference |
| <i>Bidder</i> | | | |
| Mean | 0.97% | 0.59%* | -0.38% |
| Median | 0.67% | 0.37% | -0.29% |
| Std.dev. | 7.36% | 5.03% | |
| N | 178 | 369 | |
| <i>Target</i> | | | |
| Mean | 4.36%*** | 9.19%*** | 4.83%*** |
| Median | 4.46%*** | 9.58%*** | 5.12%*** |
| Std.dev. | 10.73% | 10.73% | |
| N | 178 | 369 | |
| Panel B | | | |
| | 1990-2004 different advisor | 2005-2016 different advisor | Difference |
| <i>Bidder</i> | | | |
| Mean | 0.70% | 0.54%* | -0.16% |
| Median | 0.49% | 0.37% | -0.12% |
| Std.dev. | 6.97% | 4.97% | |
| N | 130 | 356 | |
| <i>Target</i> | | | |
| Mean | 3.91%*** | 9.11%*** | 5.19%*** |
| Median | 4.18%*** | 9.56%*** | 5.38%*** |
| Std.dev. | 10.91% | 10.67% | |
| N | 130 | 356 | |
| Panel C | | | |
| | 1998-2004 different advisor | 1998-2004 same advisor | Difference |
| <i>Bidder</i> | | | |
| Mean | 0.85% | 1.70% | 0.86% |
| Median | 0.56% | 1.50% | 0.94% |
| Std.dev. | 6.93% | 8.34% | |
| N | 118 | 48 | |
| <i>Target</i> | | | |
| Mean | 4.44%*** | 5.55%*** | 1.11% |
| Median | 4.28%*** | 6.62%*** | 2.34% |
| Std.dev. | 11.04% | 10.23% | |
| N | 118 | 48 | |

This table presents the bidder announcement CAR (-2,+2) for bidders and targets. Cumulative abnormal returns are calculated based on market-adjusted returns using the country's Datastream value-weighted total market return index. Panel A is based on the full sample and compares the two periods 1990-2004 and 2005-2016. Panel B also compares 1990-2004 with 2005-2016 but only includes observations with different financial advisors. Panel C compares takeover announcements with different financial advisors with takeover attempts where bidder and target share the same financial advisor in the period 1998-2004 where the phenomenon is most present. Significance of the difference in mean and median is based on a two-sample t-test and a non-parametric Mann-Whitney U test. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Table 4b: Bidder and Target Announcement Returns for the 41 day event window

| Cumulated Abnormal Returns (CARs) around the Takeover Announcement | | | |
|---|-----------------------------|-----------------------------|-----------------|
| Panel A | | | |
| | 1990-2004 | 2005-2016 | Difference |
| <i>Bidder</i> | | | |
| Mean | 2.71%** | 1.18% | -1.53% |
| Median | 2.18%*** | 1.00% | -1.18% |
| Std.dev. | 14.99% | 11.76% | |
| N | 178 | 369 | |
| <i>Target</i> | | | |
| Mean | 8.19%*** | 12.53%*** | 4.34%** |
| Median | 7.11%*** | 11.00%*** | 3.89%*** |
| Std.dev. | 23.69% | 19.55% | |
| N | 178 | 369 | |
| Panel B | | | |
| | 1990-2004 different advisor | 2005-2016 different advisor | Difference |
| <i>Bidder</i> | | | |
| Mean | 2.99%** | 0.94% | -2.05% |
| Median | 1.70%** | 0.86% | -0.84% |
| Std.dev. | 15.34% | 11.42% | |
| N | 130 | 356 | |
| <i>Target</i> | | | |
| Mean | 8.79%*** | 12.38%*** | 3.59%* |
| Median | 6.38%*** | 10.98%*** | 4.60%** |
| Std.dev. | 23.23% | 19.58% | |
| N | 130 | 356 | |
| Panel C | | | |
| | 1998-2004 different advisor | 1998-2004 same advisor | Difference |
| <i>Bidder</i> | | | |
| Mean | 3.04%* | 1.95% | -1.09% |
| Median | 1.70%* | 4.00% | 2.30% |
| Std.dev. | 15.84% | 14.11% | |
| N | 118 | 48 | |
| <i>Target</i> | | | |
| Mean | 9.75%*** | 6.57%* | -3.18% |
| Median | 8.06%*** | 8.52% | 0.46% |
| Std.dev. | 23.97% | 25.08% | |
| N | 118 | 48 | |

This table presents the bidder announcement CAR (-20,+20) for bidders and targets. Cumulative abnormal returns are calculated based on market-adjusted returns using the country's Datastream value-weighted total market return index. Panel A is based on the full sample and compares the two periods 1990-2004 and 2005-2016. Panel B also compares 1990-2004 with 2005-2016 but only includes observations with different financial advisors. Panel C compares takeover announcements with different financial advisors with takeover attempts where bidder and target share the same financial advisor in the period 1998-2004 where the phenomenon is most present. Significance of the difference in mean and median is based on a two-sample t-test and a non-parametric Mann-Whitney U test. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Table 5: Univariate Comparison of Deal, Bidder and Target Characteristics 1990-2004 vs. 2005-2016 (Complete Sample)

| Deal, Bidder and Target Characteristics | | | | | | | | |
|--|------------------|-------------|---------------|------------------|-------------|---------------|----------------------|---------------|
| Variable | 1990-2004 | | | 2005-2016 | | | Difference in | |
| | N | Mean | Median | N | Mean | Median | Mean | Median |
| Deal Characteristics | | | | | | | | |
| Deal Value (ln) | 227 | 4.02 | 3.82 | 401 | 4.39 | 4.22 | 0.37*** | 0.39** |
| Termination fee (Target) | 3 | 2.25 | 2.81 | 20 | 3.22 | 3.10 | 0.97 | 0.30 |
| Final Premium (1 day) | 209 | 6.93 | 5.20 | 375 | 26.35 | 19.52 | 19.43*** | 14.32*** |
| Final Premium (1 week) | 209 | 8.20 | 6.84 | 379 | 27.99 | 21.13 | 19.80*** | 14.29*** |
| Final Premium (4 week) | 210 | 10.14 | 6.09 | 380 | 28.78 | 22.03 | 18.64*** | 15.94*** |
| Relative Size | 197 | 0.26 | 0.09 | 368 | 0.21 | 0.06 | -0.04 | -0.03 |
| % held at announcement | 102 | 28.48 | 30.89 | 190 | 22.06 | 22.26 | -6.42*** | -8.63* |
| Time to completion | 227 | 164.99 | 139.00 | 401 | 112.80 | 82.00 | -52.19*** | -57.00*** |
| Same Fin. Advisor Dum. | 227 | 0.26 | - | 401 | 0.04 | - | -0.22*** | - |
| Success Dummy | 227 | 1.00 | - | 401 | 1.00 | - | 0.00 | - |
| Cross-Border Dummy | 227 | 0.11 | - | 401 | 0.15 | - | 0.04 | - |
| Hostile Deal Dummy | 227 | 0.00 | - | 401 | 0.01 | - | 0.01 | - |
| Cash-only Deal Dummy | 227 | 0.15 | - | 401 | 0.56 | - | 0.41*** | - |
| Stock-only Deal Dummy | 227 | 0.68 | - | 401 | 0.39 | - | -0.29*** | - |
| Same Industry Dummy | 227 | 0.49 | - | 401 | 0.44 | - | -0.05 | - |
| One party in <i>keiretsu</i> | 227 | 0.35 | - | 401 | 0.26 | - | -0.10** | - |
| Same <i>keiretsu</i> group | 227 | 0.05 | - | 401 | 0.03 | - | -0.02 | - |
| Bidder Characteristics | | | | | | | | |
| Size Bidder (ln) | 197 | 6.68 | 6.78 | 368 | 7.21 | 7.24 | 0.54*** | 0.46* |
| Cash/Cur. Assets Bidder | 193 | 28.39 | 24.51 | 366 | 31.71 | 27.72 | 3.33** | 3.21 |
| Cash/Tot. Assets Bidder | 194 | 14.68 | 12.14 | 366 | 17.25 | 13.45 | 2.57** | 1.31 |
| M/B ratio Bidder | 191 | 1.70 | 1.17 | 365 | 1.93 | 1.35 | 0.23 | 0.18* |
| Leverage Bidder | 199 | 29.51 | 29.48 | 369 | 19.07 | 15.76 | -10.45*** | -13.72*** |
| Return on Assets Bidder | 192 | 2.54 | 1.75 | 364 | 4.04 | 3.61 | 1.50** | 1.86*** |
| Total Debt to EV Bidder | 194 | 149.44 | 73.60 | 366 | 75.54 | 35.71 | -73.90*** | -37.89*** |
| Free Float Shares Bidder | 31 | 70.32 | 75.00 | 373 | 74.51 | 80.00 | 4.19 | 5.00*** |
| M&A Years after IPO | 171 | 10.96 | 14.00 | 342 | 16.88 | 21.00 | 5.92*** | 7.00*** |
| Target Characteristics | | | | | | | | |
| Size Target (ln) | 175 | 4.44 | 4.18 | 339 | 4.48 | 4.32 | 0.04 | 0.13 |
| Cash/Cur. Assets Target | 135 | 28.49 | 22.75 | 330 | 33.47 | 29.70 | 4.98** | 6.95*** |
| Cash/Tot. Assets Target | 136 | 15.86 | 11.50 | 334 | 19.07 | 15.29 | 3.22** | 3.79*** |
| M/B ratio Target | 178 | 1.33 | 0.79 | 370 | 1.90 | 0.97 | 0.57** | 0.18** |
| Leverage Target | 189 | 28.04 | 27.35 | 382 | 22.99 | 20.54 | -5.05*** | -6.82** |
| Return on Assets Target | 185 | 0.61 | 1.02 | 380 | 0.31 | 2.09 | -0.30 | 1.07*** |
| Total Debt to EV Target | 135 | 185.01 | 61.11 | 330 | 106.17 | 42.73 | -78.85** | -18.39 |
| Free Float Shares Target | 26 | 56.12 | 57.00 | 373 | 61.03 | 59.00 | 4.91 | 2.00 |
| M&A Years after IPO | 39 | 9.72 | 7.00 | 48 | 13.96 | 11.00 | 4.24 | 4.00 |

This table presents univariate comparisons of all deal, bidder and target variables included in the probit regression models. The table compares the mean and median characteristics of deals in the period 1990-2004 with deals of 2005-2016, after the introduction of corporate governance improvements. Significance of the difference in mean and median is based on a two-sample t-test and a non-parametric Mann-Whitney U test. The significance of the difference in the dummy variables is tested with a difference of proportion test (z-statistic). ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Table 6: Univariate Comparison of Deal, Bidder and Target Characteristics 1990-2004 vs. 2005-2016 (Only Announcements with Different Financial Advisor)

| Deal, Bidder and Target Characteristics | | | | | | | | |
|--|----------------------------------|-------------|---------------|----------------------------------|-------------|---------------|----------------------|---------------|
| Variable | 1990-2004 (Diff. Advisor) | | | 2005-2016 (Diff. Advisor) | | | Difference in | |
| | N | Mean | Median | N | Mean | Median | Mean | Median |
| Deal Characteristics | | | | | | | | |
| Deal Value (ln) | 169 | 4.00 | 3.75 | 386 | 4.33 | 4.15 | 0.34** | 0.40* |
| Termination fee (Target) | 3 | 2.25 | 2.81 | 20 | 3.22 | 3.10 | 0.97 | 0.30* |
| Final Premium (1 day) | 152 | 6.23 | 5.12 | 360 | 25.61 | 19.45 | 19.38*** | 14.34*** |
| Final Premium (1 week) | 151 | 6.90 | 5.80 | 364 | 27.28 | 20.98 | 20.38*** | 15.18*** |
| Final Premium (4 week) | 152 | 9.10 | 3.37 | 365 | 27.99 | 22.22 | 18.89*** | 18.85*** |
| Relative Size | 150 | 0.20 | 0.06 | 356 | 0.20 | 0.05 | 0.00 | 0.00 |
| % held at announcement | 80 | 28.28 | 30.89 | 185 | 22.61 | 23.65 | -5.67** | -7.24 |
| Time to completion | 169 | 162.11 | 140.00 | 386 | 108.23 | 81.00 | -53.88*** | -59.00*** |
| Same Fin. Advisor Dum. | 169 | 0.00 | - | 386 | 0.00 | - | 0.00 | - |
| Success Dummy | 169 | 1.00 | - | 386 | 1.00 | - | 0.00 | - |
| Cross-Border Dummy | 169 | 0.14 | - | 386 | 0.16 | - | 0.02 | - |
| Hostile Deal Dummy | 169 | 0.00 | - | 386 | 0.01 | - | 0.01 | - |
| Cash-only Deal Dummy | 169 | 0.19 | - | 386 | 0.57 | - | 0.38*** | - |
| Stock-only Deal Dummy | 169 | 0.62 | - | 386 | 0.38 | - | -0.25*** | - |
| Same Industry Dummy | 169 | 0.48 | - | 386 | 0.42 | - | -0.06 | - |
| One party in <i>keiretsu</i> | 169 | 0.38 | - | 386 | 0.25 | - | -0.13*** | - |
| Same <i>keiretsu</i> Group | 169 | 0.05 | - | 386 | 0.03 | - | -0.02 | - |
| Bidder Characteristics | | | | | | | | |
| Size Bidder (ln) | 150 | 6.90 | 7.15 | 356 | 7.23 | 7.26 | 0.33* | 0.11 |
| Cash/Cur. Assets Bidder | 145 | 27.34 | 24.51 | 354 | 32.05 | 28.15 | 4.71*** | 3.64 |
| Cash/Tot. Assets Bidder | 146 | 13.91 | 11.30 | 354 | 17.34 | 13.46 | 3.43*** | 2.16** |
| M/B ratio Bidder | 146 | 1.81 | 1.22 | 353 | 1.95 | 1.35 | 0.14 | 0.13 |
| Leverage Bidder | 148 | 30.08 | 30.97 | 357 | 18.80 | 15.69 | -11.28*** | -15.28*** |
| Return on Assets Bidder | 146 | 2.71 | 1.81 | 353 | 3.94 | 3.55 | 1.24* | 1.74*** |
| Total Debt to EV Bidder | 146 | 142.52 | 72.25 | 354 | 73.38 | 34.59 | -69.14*** | -37.66*** |
| Free Float Shares Bidder | 26 | 72.23 | 75.50 | 359 | 74.56 | 81.00 | 2.33 | 5.50** |
| M&A Years after IPO | 134 | 11.78 | 15.00 | 334 | 16.99 | 21.00 | 5.21*** | 6.00*** |
| Target Characteristics | | | | | | | | |
| Size Target (ln) | 130 | 4.46 | 4.16 | 324 | 4.43 | 4.22 | -0.04 | 0.06 |
| Cash/Cur. Assets Target | 102 | 28.02 | 21.03 | 317 | 33.60 | 29.40 | 5.57** | 8.37** |
| Cash/Tot. Assets Target | 103 | 15.44 | 11.03 | 320 | 19.15 | 15.29 | 3.71** | 4.26*** |
| M/B ratio Target | 132 | 1.46 | 0.82 | 356 | 1.93 | 0.96 | 0.47 | 0.14 |
| Leverage Target | 139 | 28.00 | 27.06 | 367 | 22.74 | 20.38 | -5.26*** | -6.68** |
| Return on Assets Target | 138 | 1.01 | 1.17 | 365 | 0.14 | 2.07 | -0.87 | 0.91** |
| Total Debt to EV Target | 102 | 180.71 | 54.31 | 316 | 107.95 | 39.34 | -72.77** | -14.98 |
| Free Float Shares Target | 21 | 55.90 | 59.00 | 359 | 60.69 | 59.00 | 4.78 | 0.00 |
| M&A Years after IPO | 30 | 8.27 | 7.00 | 46 | 13.78 | 11.00 | 5.52 | 4.00 |

This table presents univariate comparisons of all deal, bidder and target variables included in the regression models. The table compares the mean and median characteristics of only deals having a different financial advisor in the period 1990-2004 with deals of 2005-2016, after the introduction of corporate governance improvements. Significance of the difference in mean and median is based on a two-sample t-test and a non-parametric Mann-Whitney U test. The significance of the difference in the dummy variables is tested with a difference of proportion test (z-statistic). ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Table 7: Univariate Comparison of Deal, Bidder and Target Characteristics 1998-2004

| Deal, Bidder and Target Characteristics | | | | | | | | |
|--|--------------------------|-------------|---------------|---------------------|-------------|---------------|----------------------|---------------|
| Variable | Different Advisor | | | Same Advisor | | | Difference in | |
| | N | Mean | Median | N | Mean | Median | Mean | Median |
| Deal Characteristics | | | | | | | | |
| Deal Value (ln) | 142 | 3.83 | 3.75 | 58 | 4.08 | 3.91 | 0.25 | 0.17 |
| Termination fee (Target) | 2 | 2.87 | 2.87 | 0 | 0.00 | 0.00 | -2.87 | -2.87 |
| Final Premium (1 day) | 134 | 5.02 | 4.84 | 57 | 8.78 | 5.26 | 3.76 | 0.42 |
| Final Premium (1 week) | 133 | 5.71 | 5.30 | 58 | 11.58 | 12.09 | 5.87 | 6.79 |
| Final Premium (4 week) | 134 | 8.90 | 3.91 | 58 | 12.85 | 12.79 | 3.96 | 8.89** |
| Relative Size | 129 | 0.20 | 0.06 | 47 | 0.46 | 0.30 | 0.25*** | 0.24*** |
| % held at announcement | 73 | 27.89 | 30.84 | 22 | 29.19 | 32.45 | 1.30 | 1.62 |
| Time to completion | 142 | 151.96 | 140.00 | 58 | 173.36 | 137.00 | 21.40 | -3.00 |
| Same Fin. Advisor Dum. | 142 | 0.00 | - | 58 | 1.00 | - | 1.00 | - |
| Success Dummy | 142 | 1.00 | - | 58 | 1.00 | - | 0.00 | - |
| Cross-Border Dummy | 142 | 0.08 | - | 58 | 0.02 | - | -0.07* | - |
| Hostile Deal Dummy | 142 | 0.00 | - | 58 | 0.00 | - | 0.00 | - |
| Cash-only Deal Dummy | 142 | 0.19 | - | 58 | 0.03 | - | -0.16*** | - |
| Stock-only Deal Dummy | 142 | 0.65 | - | 58 | 0.86 | - | 0.21*** | - |
| Same Industry Dummy | 142 | 0.47 | - | 58 | 0.52 | - | 0.05 | - |
| One party in <i>keiretsu</i> | 142 | 0.33 | - | 58 | 0.26 | - | -0.07 | - |
| Same <i>keiretsu</i> group | 142 | 0.03 | - | 58 | 0.05 | - | 0.02 | - |
| Bidder Characteristics | | | | | | | | |
| Size Bidder (ln) | 129 | 6.73 | 6.81 | 47 | 5.95 | 5.81 | -0.78*** | -1.00 |
| Cash/Cur. Assets Bidder | 127 | 26.87 | 24.46 | 48 | 31.55 | 24.80 | 4.68 | 0.34 |
| Cash/Tot. Assets Bidder | 128 | 13.31 | 11.20 | 48 | 17.03 | 13.60 | 3.72** | 2.40** |
| M/B ratio Bidder | 125 | 1.68 | 1.13 | 45 | 1.35 | 0.91 | -0.34 | -0.22** |
| Leverage Bidder | 127 | 29.13 | 28.81 | 51 | 27.87 | 25.38 | -1.26 | -3.43 |
| Return on Assets Bidder | 125 | 2.74 | 1.78 | 46 | 2.02 | 1.40 | -0.72 | -0.38 |
| Total Debt to EV Bidder | 128 | 143.36 | 67.01 | 48 | 170.47 | 80.19 | 27.11 | 13.18 |
| Free Float Shares Bidder | 26 | 72.23 | 75.50 | 5 | 60.40 | 71.00 | -11.83 | -4.50 |
| M&A Years after IPO | 112 | 12.23 | 15.00 | 37 | 8.00 | 8.00 | -4.23*** | -7.00 |
| Target Characteristics | | | | | | | | |
| Size Target (ln) | 117 | 4.20 | 4.02 | 45 | 4.39 | 4.19 | 0.18 | 0.17 |
| Cash/Cur. Assets Target | 100 | 28.09 | 20.59 | 33 | 29.94 | 26.05 | 1.85 | 5.46 |
| Cash/Tot. Assets Target | 101 | 15.43 | 10.43 | 33 | 17.16 | 13.04 | 1.73 | 2.61 |
| M/B ratio Target | 120 | 1.38 | 0.77 | 46 | 0.96 | 0.63 | -0.42 | -0.15 |
| Leverage Target | 126 | 27.29 | 25.26 | 50 | 28.17 | 29.93 | 0.88 | 4.67 |
| Return on Assets Target | 125 | 0.57 | 1.00 | 47 | -0.58 | 0.62 | -1.15 | -0.38 |
| Total Debt to EV Target | 100 | 180.91 | 53.87 | 33 | 198.30 | 100.45 | 17.38 | 46.58 |
| Free Float Shares Target | 21 | 55.90 | 59.00 | 5 | 57.00 | 52.00 | 1.10 | -7.00 |
| M&A Years after IPO | 21 | 9.90 | 7.00 | 9 | 14.56 | 14.00 | 4.65 | 7.00 |

This table presents univariate comparisons of all deal, bidder and target variables included in the regression models for the period 1998-2004, where all takeover announcements with a same advisor took place. The table compares the mean and median characteristics of deals with and without having the same advisor. Significance of the difference in mean and median is based on a two-sample t-test and a non-parametric Mann-Whitney U test. The significance of the difference in the dummy variables is tested with a difference of proportion test (z-statistic). ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Table 8: OLS and 2SLS Regressions on *time to deal completion*

| Model | I – OLS | II – OLS | III – OLS | IV – OLS | V – 2SLS | VI – 2SLS |
|---|-----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| Sample | M&A announcements in Japan | | | | | |
| Deal characteristics | <i>yes</i> | <i>yes</i> | <i>yes</i> | <i>yes</i> | <i>yes</i> | <i>yes</i> |
| Bidder characteristics | <i>no</i> | <i>yes</i> | <i>no</i> | <i>yes</i> | <i>no</i> | <i>yes</i> |
| Target characteristics | <i>no</i> | <i>yes</i> | <i>no</i> | <i>yes</i> | <i>no</i> | <i>yes</i> |
| 1998-2004 only | <i>no</i> | <i>no</i> | <i>yes</i> | <i>yes</i> | <i>no</i> | <i>no</i> |
| Dependent variable: <i>time to deal completion (days)</i> | Coeff. [t-stat.] | Coeff. [t-stat.] | Coeff. [t-stat.] | Coeff. [t-stat.] | Coeff. [t-stat.] | Coeff. [t-stat.] |
| Hypotheses | | | | | | |
| Same Financial Advisor | 11.8706 [1.0287] | -0.4237 [-0.0365] | -11.4310 [-0.7890] | -22.3799 [-1.2655] | 67.7301 [1.7840] | 68.4669 [1.1638] |
| Deal controls | | | | | | |
| Deal Value (ln) | 15.9269*** [5.2842] | 14.2285*** [3.9019] | 11.5437* [2.3608] | 14.7873* [2.1890] | 16.1259*** [5.3007] | 15.1584*** [3.8712] |
| Final Premium (1 week) | -0.0265 [-0.2726] | 0.0204 [0.2009] | 0.2715 [0.9646] | 0.2169 [0.7082] | -0.0406 [-0.4244] | -0.0108 [-0.1055] |
| Relative Size | 14.4216 [1.4418] | 36.9257** [3.0822] | 35.2919 [1.6458] | 25.2254 [1.0222] | 9.0691 [1.0870] | 22.1790 [1.2546] |
| Cross-Border Dummy | 0.6008 [0.0499] | 26.2099 [1.4550] | 21.0004 [0.9349] | 74.7825*** [3.4643] | 3.5150 [0.2854] | 28.6094 [1.5994] |
| Cash-only Deal Dummy | -103.1347*** [-13.9031] | -96.6811*** [-11.6220] | -125.3816*** [-9.1824] | -121.7918*** [-7.0430] | -96.2707*** [-12.0633] | -91.8638*** [-10.5387] |
| Same Industry Dummy | 21.3488** [7.3700] | 11.4911 [1.3381] | 2.2470 [0.1810] | -20.2149 [-1.2124] | 20.6216** [3.0273] | 11.6682 [1.3415] |
| Bidder controls | | | | | | |
| Size Bidder (ln) | | -1.8460 [-0.9507] | | -7.8607 [-1.7757] | | -2.5122 [-1.1289] |
| Cash holdings Bidder | | -0.2232 [-0.6862] | | 0.2288 [0.3479] | | -0.2837 [-0.8006] |
| M/B ratio Bidder | | -2.6639 [-2.3580] | | -7.9376*** [-4.2210] | | -2.2954 [-1.8560] |
| Return on Assets Bidder | | -0.1659 [-0.2996] | | -2.2834 [-1.8316] | | -0.3712 [-0.6014] |
| Leverage Bidder | | -0.0393 [-1.7236] | | -0.0541 [-1.5547] | | -0.0536* [-2.2858] |
| Target controls | | | | | | |
| Cash holdings Target | | -0.3566 [-1.8783] | | -0.4596 [-0.9763] | | -0.4024 [-1.8939] |
| M/B ratio Target | | -1.3094 [-1.627] | | 1.9770 [1.2843] | | -0.8324 [-0.9099] |
| Return on Assets Target | | 0.0042 [0.0113] | | 0.6670 [0.7809] | | 0.0748 [0.1953] |
| Leverage Target | | -0.0103 [-0.846] | | -0.0309 [-1.2797] | | -0.0121 [-0.9586] |
| Constant | 89.6496*** [7.3700] | 127.7894*** [6.1296] | 121.8962*** [5.9623] | 208.1112*** [4.4472] | 81.0181*** [6.5660] | 126.2378*** [5.9807] |
| Endogeneity test | | | | | 0.1019 | 0.1882 |
| R ² | 0.4437 | 0.5004 | 0.3256 | 0.5014 | | |
| F-value | 59.06 | 28.12 | 22.08 | 9.03 | 438.03 | 438.03 |
| N | 527 | 367 | 168 | 102 | 527 | 367 |

This table presents the results from several OLS and instrumental variables two-stage least squares (2SLS) regressions on the *time to deal completion* as the dependent variable. Each model has a different setup with respect to the deal characteristics and the set of control variables (deal and bidder characteristics). t-values based on heteroskedasticity-consistent standard errors are reported below coefficients. For the 2SLS regressions, the dummy variable *after2004* to indicate that corporate governance improvements have been introduced is used as the instrument. The second stage of the 2SLS uses the same covariates as in the OLS regressions but instruments *same financial advisor*. The variables success, hostile, and termination fee were omitted as there were no such observations in deals with the same advisor. Other variables from the univariate statistics had to be left out because of data availability and the consequential sample size reduction. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Table 9: OLS and 2SLS Regressions on the size of the premium

| Model | I – OLS | II – OLS | III – OLS | IV – OLS | V – 2SLS | VI – 2SLS |
|---|-------------------------------|-------------------------------|-------------------------------|-------------------------------|--------------------------------|-------------------------------|
| Sample | M&A announcements in Japan | | | | | |
| Deal characteristics | yes | yes | yes | yes | yes | yes |
| Bidder characteristics | no | yes | no | yes | no | yes |
| Target characteristics | no | yes | no | yes | no | yes |
| 1998-2004 only | no | no | yes | yes | no | no |
| Dependent variable: <i>height of the premium (1 week)</i> | Coeff. [t-stat.] | Coeff. [t-stat.] | Coeff. [t-stat.] | Coeff. [t-stat.] | Coeff. [t-stat.] | Coeff. [t-stat.] |
| Hypotheses | | | | | | |
| Same Financial Advisor | 3.6683 [0.6851] | 7.3679 [1.0681] | 9.7255 [1.6929] | 10.1311 [1.2121] | -68.8194** [-3.2329] | -86.5649* [-2.3523] |
| Deal controls | | | | | | |
| Deal Value (ln) | 4.7364*** [3.3353] | 3.9642* [2.0997] | 2.4382 [1.2921] | 5.8520 [1.9351] | 4.3257** [2.8232] | 2.8706 [1.2438] |
| Time to Deal Completion | -0.0066 [-0.2691] | 0.0055 [0.2033] | 0.0386 [1.0387] | 0.0329 [0.7519] | 0.0084 [0.2853] | 0.0051 [0.1578] |
| Relative Size | -3.6864 [-0.9861] | -6.4404 [-0.7632] | -13.9098* [-2.0786] | -22.5835* [-2.5731] | 2.9615 [0.7643] | 13.4838 [1.0307] |
| Cross-Border Dummy | 2.4150 [0.4201] | -10.2597 [-1.2207] | -11.9317 [-0.7055] | -41.4610* [-2.1941] | -1.3248 [-0.2172] | -13.9630 [-1.4823] |
| Cash-only Deal Dummy | 17.8754*** [3.8102] | 16.8502*** [3.6308] | 14.6998 [1.5597] | 11.5975 [1.0471] | 10.8779* [2.0974] | 10.9148* [2.1230] |
| Same Industry Dummy | -2.3831 [-0.7253] | 5.2322 [1.2525] | -2.7185 [-0.5844] | -0.9908 [-0.1695] | -1.8087 [-0.4792] | 5.2209 [1.0757] |
| Bidder controls | | | | | | |
| Size Bidder (ln) | | 0.9688 [0.6198] | | -0.8788 [-0.3704] | | 1.9203 [1.012] |
| Cash holdings Bidder | | 0.0308 [0.1724] | | -0.1553 [-0.5794] | | 0.1147 [0.4979] |
| M/B ratio Bidder | | -0.6563 [-1.0285] | | -0.9340 [-0.7321] | | -1.1902 [-1.4167] |
| Return on Assets Bidder | | -0.2481 [-0.8889] | | -0.3659 [-0.5794] | | 0.0221 [0.0537] |
| Leverage Bidder | | -0.0209 [-1.504] | | 0.0040 [0.2455] | | -0.0023 [-0.106] |
| Target controls | | | | | | |
| Cash holdings Target | | 0.1456 [1.1036] | | 0.0430 [0.208] | | 0.2142 [1.2651] |
| M/B ratio Target | | -0.6712 [-1.1046] | | 1.1989 [1.4362] | | -1.3532* [-2.0155] |
| Return on Assets Target | | 0.3194 [1.0819] | | -0.5333 [-1.2846] | | 0.2363 [0.7147] |
| Leverage Target | | -0.0192** [-2.75] | | -0.0186 [-1.986] | | -0.0176* [-2.5259] |
| Constant | -3.7592 [-0.7339] | -7.2475 [-0.6957] | -7.1403 [-0.8046] | -6.6752 [-0.3464] | 5.9962 [0.9434] | -5.3492 [-0.4166] |
| Endogeneity test | | | | | 0.0001 | 0.0011 |
| R ² | 0.1090 | 0.1565 | 0.0614 | 0.2063 | | |
| F-test | 11.59 | 4.72 | 1.55 | 2.09 | 65.12 | 53.62 |
| N | 527 | 367 | 168 | 102 | 527 | 367 |

This table presents the results from several OLS and instrumental variables two-stage least squares (2SLS) regressions on the *height of the premium* as the dependent variable. Each model has a different setup with respect to the deal characteristics and the set of control variables (deal and bidder characteristics). t-values based on heteroskedasticity-consistent standard errors are reported below coefficients. For the 2SLS regressions, the dummy variable *tender* as deal type is used as the instrument. The second stage of the 2SLS uses the same covariates as in the OLS regressions but instruments *same financial advisor*. The variables success, hostile, and termination fee were omitted as there were no such observations in deals with the same advisor. Other variables from the univariate statistics had to be left out because of data availability and the consequential sample size reduction. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Table 10: Probit Regressions on *same financial advisor*

| Model | I | II | III | IV | V | VI |
|--|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Sample | M&A announcements in Japan | | | | | |
| Deal characteristics | <i>yes</i> | <i>yes</i> | <i>yes</i> | <i>yes</i> | <i>yes</i> | <i>yes</i> |
| Bidder characteristics | <i>no</i> | <i>yes</i> | <i>no</i> | <i>yes</i> | <i>no</i> | <i>yes</i> |
| Target characteristics | <i>no</i> | <i>no</i> | <i>yes</i> | <i>yes</i> | <i>no</i> | <i>yes</i> |
| 1998-2004 only | <i>yes</i> | <i>yes</i> | <i>yes</i> | <i>yes</i> | <i>no</i> | <i>no</i> |
| After 1997 only | <i>no</i> | <i>no</i> | <i>no</i> | <i>no</i> | <i>yes</i> | <i>no</i> |
| After 2004 only | <i>no</i> | <i>no</i> | <i>no</i> | <i>no</i> | <i>no</i> | <i>yes</i> |
| Dependent variable: <i>Same FinancialAdvisor</i> | Coeff. [t-stat.] | Coeff. [t-stat.] | Coeff. [t-stat.] | Coeff. [t-stat.] | Coeff. [t-stat.] | Coeff. [t-stat.] |
| Deal controls | | | | | | |
| Time to Deal Completion | -0.0012 [-0.9014] | -0.0022 [-1.5094] | -0.0022 [-1.1933] | -0.0035 [-1.5394] | -0.0005 [-0.3878] | 0.0014 [0.6612] |
| Deal Value (ln) | -0.0949 [-1.1812] | -0.0624 [-0.5413] | -0.1779 [-1.4369] | -0.3003 [-1.9043] | -0.0426 [-0.3695] | 0.4199 [1.8729] |
| Final Premium (1 week) | 0.0066 [1.6204] | 0.0098 [1.9569] | 0.0064 [1.0621] | 0.0082 [1.3421] | 0.0024 [0.8220] | 0.0004 [0.0892] |
| Relative Size | 1.0237*** [3.4555] | 0.9192* [2.4993] | 1.1211** [2.8611] | 0.9831* [2.0577] | 0.8244* [2.4739] | -0.1489 [-0.2830] |
| Cash-only Deal Dummy | -1.0200* [-2.1946] | -1.1345* [-2.2203] | -0.7853 [-1.4179] | -1.2717 [-1.8482] | -0.5767* [-2.0768] | 0.7773 [1.7450] |
| Same Industry Dummy | -0.0639 [-0.2855] | -0.2777 [-1.1223] | 0.0553 [0.1877] | -0.3407 [-0.9446] | -0.0189 [-0.0835] | -0.0512 [-0.1099] |
| Bidder controls | | | | | | |
| Size Bidder (ln) | | -0.0924 [-0.9878] | | -0.1595 [-1.2837] | 0.0108 [0.1372] | -0.0154 [-0.1070] |
| Cash holdings Bidder | | 0.0283* [2.4662] | | 0.0280 [1.6652] | 0.0049 [0.4628] | -0.0309 [-1.4393] |
| M/B ratio Bidder | | -0.0615 [-1.0679] | | -0.0611 [-0.9136] | -0.0645 [-1.0095] | -1.9970*** [-3.9624] |
| Return on Assets Bidder | | -0.0188 [-0.5279] | | 0.0271 [0.7686] | 0.0270 [0.9946] | 0.3284** [2.8181] |
| Leverage Bidder | | 0.0004 [0.6763] | | 0.0007 [1.0405] | 0.0012* [2.0494] | 0.0012 [0.3946] |
| Target controls | | | | | | |
| Cash holdings Target | | | 0.0174 [1.8598] | 0.0129 [1.0543] | 0.0081 [1.077] | 0.0374** [3.2717] |
| M/B ratio Target | | | -0.0604 [-1.3697] | -0.1612* [-2.2132] | -0.2299* [-2.3395] | -0.6461** [-2.6366] |
| Return on Assets Target | | | -0.0126 [-0.6185] | -0.0164 [-0.5124] | -0.0093 [-0.6737] | 0.0470 [1.3122] |
| Leverage Target | | | 0.0000 [0.0559] | 0.0000 [-0.0881] | 0.0003 [1.1061] | 0.0016** [3.1187] |
| Constant | -0.2283 [-0.6327] | 0.1741 [0.2747] | -0.2519 [-0.4350] | 1.3195 [1.2511] | -1.3629** [-2.6453] | -3.3692*** [-4.8522] |
| Adj. R ² | 0.1060 | 0.1738 | 0.1349 | 0.2204 | 0.1489 | 0.4383 |
| Wald chi ² | 15.28 | 27.26 | 15.56 | 25.76 | 39.27 | 61.75 |
| N | 168 | 157 | 108 | 102 | 366 | 264 |

This table presents the results from several probit regressions on having the *same financial advisor* as the dependent variable. Each model has a different setup with respect to the deal characteristics and the set of control variables (deal and bidder characteristics). t values based on heteroskedasticity-consistent standard errors are reported below coefficients. The variables success, hostile, cross-border, and termination fee were omitted as there were no such observations in deals with the same advisor. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Table A.1: Variable definitions

| Variable name | Source | Variable description |
|------------------------------|--|--|
| Same Financial Advisor | Thomson Eikon, own calculation | Dummy variable that takes the value of 1 if bidder and target share the same financial advisor or investment bank in a single transaction. |
| <i>One party is keiretsu</i> | Previous Papers, own research | Dummy variable that takes the value of 1 if at least one involved party (bidder or target) is member in a <i>keiretsu</i> group. |
| Same <i>keiretsu</i> group | Previous Papers, own research | Dummy variable that takes the value of 1 if bidder and target are members of the same <i>keiretsu</i> group. |
| Deal Value | Thomson Eikon | Natural logarithm of transaction value. |
| Success | Thomson Eikon | Dummy variable that takes the value of 1 if a takeover attempt is successful, zero otherwise. In the current sample only successful takeover attempts are analyzed. |
| Cash only | Thomson Eikon | Cash only is a dummy variable equal to 1 if only cash is used as method of payment in the transaction. |
| Stock only | Thomson Eikon | Stock only is a dummy variable equal to 1 if only shares are used as method of payment in the transaction. |
| Final premium | Thomson Eikon | Final premium is the ratio of final offer price per share to the target's stock price 4 weeks (1 week, 1 day, respectively) prior to the announcement minus 1. |
| Termination fee | Thomson Eikon | Termination fee is defined as the target termination fee divided by transaction value winsorized at the upper and lower 1 percent level. |
| Cross border | Thomson Eikon | Dummy variable that takes the value of 1 if bidder and target are located in different countries, zero otherwise. |
| Same industry | Thomson Eikon | Same industry is a dummy variable equal to 1 if bidder and target share the same industry based on the 2-digit SIC code. |
| % held at announcement | Thomson Eikon | The bidder's ownership stake in the target before the public takeover announcement (Toehold). |
| Free float of shares | Thomson Eikon | Percentage of shares that are classified as free float and are traded at the stock exchange and are available to ordinary investors. |
| Years after IPO | Thomson Eikon, own calculation | Time span in years the transaction is announced after the bidder's going public. |
| Hostile | Thomson Eikon | Hostile is a dummy variable that takes the value of 1 if the takeover bid is hostile or unsolicited as recorded in Thomson Eikon. In the current sample only non-hostile takeover attempts are analyzed. |
| Size bidder | Datastream / Worldscope | Size is the natural logarithm of market capitalization of the bidder. |
| M/B ratio | Datastream / Worldscope | M/B ratio is defined as the market value of common equity divided by the balance sheet value of common equity in the company. |
| Return on assets | Datastream / Worldscope | Profitability is net income scaled by total assets and is the firm's profitability. |
| Cash holdings | Datastream / Worldscope | Cash holdings is the ratio of cash and equivalents to total assets. |
| Total debt | Datastream / Worldscope | Total debt is defined as short term debt & long term debt divided by the value of total assets. |
| Leverage ratio | Datastream / Worldscope | Leverage ratio is calculated as total debt divided by total equity of the company. |
| Relative size | Datastream / Worldscope, Thomson Eikon | Relative size is defined as transaction value divided by bidder market value prior to the announcement. |

This table includes all variable definitions, data sources and variable constructions we use in the paper. We use stock return and accounting data from Datastream and Worldscope, respectively. All accounting variables and returns are winsorized at the upper and lower 1 percent level.