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NEWLY ADOPTED CORPORATE GOVERNANCE MECHANISM IMPACT ON THE PERFORMANCE OF PUBLIC JAPANESE OVERSEAS ACQUIRERS

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ABSTRACT

This paper investigates relationships between two main corporate governance components namely the Anti-Takeover Provisions (ATPs) as external component and Ownership Concentration as internal component and the short/long term performance of the Nikkei-listed Japanese cross-border acquirers during the last decade specifically from 2004 to the end of 2013. Market based cumulative abnormal returns (CARs) are used to represent the short term performance. The accounting based metric Return on Assets (ROA) is used to represent long term performance. Based on 222 events, a quantitative methods of events study and regression analysis were employed to reveal the relationships. The study found a negative, weak and statistically not significant relationship between the ATPs and short/long term performance. The other finding is that the relationship between ownership concentration and short/long term performance is almost negligible. These findings imply that the newly adopted corporate governance mechanism in Japan is still not as effective as in other developed markets such as USA and might need more time to reap tangible results.

JEL: G34, G14

KEYWORDS: Anti-Takeover Provisions, Cumulative Abnormal Return, Corporate Governance, Ownership Structure, Events Study, Regression Analysis

INTRODUCTION

The end of the Japanese financial bubbles in early 1990s left the stock market and real estate assets at devastatingly low values. Purchased assets were used by the banks as collateral in the financing process. As these assets values fell sharply the banks ended up in bad positions with regard to these loans and experienced default by many clients. Many Japanese companies lost their source of financing. Domestic demand deteriorated. Excess demand led to a long period of deflation in the local Japanese market. Japan's traditional bank-centered corporate governance system was blamed for the nation's economic bust. The beginning of 21st century marked a notable period of corporate governance reforms in Japan away from bank-centered governance and toward market-oriented governance. Mutual or cross shareholdings among Japanese firms and financial institutions decreased rapidly. At the same time shareholdings by foreign institutions increased for high-performing Japanese firms. Thus, a major divergence in corporate governance occurred among Japanese firms. In the last decade the government of Japan introduced American or Anglo-Saxon style corporate governance after witnessing good performance of Anglo-Saxon based markets such as USA, Canada, UK and Australia. Many reforms related to the corporate governance system were installed to produce a more efficient market. Financial disclosures and transparency were among the targets for improvements.

The last decade also witnessed another notable phenomenon for Japanese firms in the dramatic increase of Cross-Border Merger and Acquisitions (C-B M&A). These mergers were fueled by several factors including: domestic market decline, high cost of local labor and globalization. These factors encouraged Japanese companies to consider entering overseas markets. (C-B M&As) is becoming an important and strategic tool for Japanese companies growth. In 2012, the value of C-B M&As made by Japanese firms hit a new high record of USD 94.5B which accounted for more than 10.5% of the total C-B M&As worldwide

(calculated from Bloomberg database). To date there is a lack of research about the relationships between corporate governance and the performance of acquiring firms in Japan, especially firms expanding abroad through acquisitions. Therefore, the aim of this paper is to examine these two remarkable changes affecting Japanese firms in the last decade by investigating:1.) The relationships between the new external corporate governance system represented by Anti-Takeover Provisions (ATPs) and short/long term performance of overseas acquiring public Japanese firms. 2.) The relationship between non-bank-centered ownership concentration representing the new internal corporate governance mechanism and the short/long term performance of overseas acquiring public Japanese firms. The rest of this study is organized as follows: the first section literature reviews of the ATPs and Ownership Structure and their impact on the performance. Section two presents the data, sample construction and research methodology. The next section represents the variables construction for the regression analysis. The last section shows the results with the discussions. The paper closes with some concluding comments.

LITERATURE REVIEW

Anti-Takeover Provisions (ATPs)

The appearance of Anti-Takeover Provisions (ATPs) during 1980s represented the onset of the hostile takeover period. The subject gained the attentions of many practitioners and researchers. ATPs restrict shareholder rights which gives the management the freedom and power to act against any attempt of corporate takeover. The first researchers to address this issue argued about the effect of ATPs on shareholder wealth (DeAngelo and Rice, 1983). In their hypothesis of managerial entrenchment, they argue that ATPs help management protect their positions at the expenses of shareholders and in return reduce shareholder wealth. According to this hypothesis, ATPs increase the agency conflict between managers and shareholders. Many studies seem to support the argument of DeAngelo and Rice that ATPs have negative effect on shareholder value.

Gompers, Ishii, and Metrick (2003), (GIM) examined the effect of ATPs on firm value and shareholder returns. They selected 24 governance provisions incorporated by the Investor Responsibility Research Center (IRRC) and combined these provisions to create a shareholder rights index. They added one point for every provision that works against shareholder rights. Utilizing this index GIM found a significant negative relation between the number of ATPs and firm performance. Low value of the index indicates stronger shareholder rights and the opposite is true. They gave two possible explanations in for the negative relation between stock returns and ATP index. First, investors estimated the true costs of the weak shareholder rights caused by agency problems, which led to share price declines because of these estimates by investors. The other explanation is the classical missing variable explanation. As in corporate governance related studies; some other variables are correlated with the GIM index which causes poorer performance rather than the Index itself. Many later studies tried to explain how the ATPs can influence shareholder wealth and most pf these studies tested the robustness of the GIM finding.

Bebchuk and Cohen (2005) looked at the impact of ATPs on firm value by examining only one specific provision. This provision was staggered boards as a main anti-takeover provision. They found that only a staggered board provision can lead to significantly lower firm value. Bebchuk, Cohen, and Ferrell (2009), extended the results of GIM further by looking at a smaller ATP index based only on six provisions. They argued these provisions were the most important from a legal point of view and have the most influence on firm value. They create a smaller index consisting of 6 provisions from the 24 GIM index and called it the "E index". They showed that the strong negative relation between GIM Index and firm performance measures is largely driven by the six provision making up the E index. They showed that an index consisting of poison pills, staggered boards, limits to shareholder charter amendments, limits to the amendments of shareholder bylaw, supermajority requirements for large transaction such as mergers and golden parachute have stronger relation and association with firm value and stock returns than the GIM index. This suggests that the other remaining 18 provisions have no significant associations with the firm value. By considering these results the first hypotheses of the research is defined as follows:

H1: ATPs has a negative relationship with performance of the acquiring firm.

Ownership Structure

The other dimension of corporate governance to be investigated in this study is the ownership structure. Specifically, ownership concentration which is an important internal corporate governance component. Earlier researches focusing on the relationship between firm performance and corporate ownership show that firm value increases with ownership of the largest shareholders (McConaughy & Walker, 1998; Claessens &Djankov, 2002; La Porta, Lopez-de-Silanes, Shleifer & Vishny, 2002; Anderson & Reeb, 2003). Andre, Kooli and L`Her (2004) also report that companies owned by large block holders perform better than those owned by smaller investors. The general opinion is the presence of a large shareholder in widely held firms should have a positive impact on firm performance. Agency theory predicts that proper corporate governance mechanisms, such as ownership concentration, can reduce agency problems as stated by (Jensen and Meckling (1976) and Shleifer and Vishny (1986)). The monitoring role of large shareholders can be a beneficial internal mechanism by reducing the agency costs. These shareholders have good incentives and resources to monitor the efficiency level of management and ensure value maximization. McConaughy & Walker (1998) also report a positive relation between concentrated ownership and stock returns.

Two recent meta-analyses studies (Dalton & Daily, 2003; Sanchez and Garcia, 2007) found relationship directions might depend on the institutional environment where the corporation operates. The relation is stronger on the European continent than in Anglo-Saxon countries. This supports the argument that ownership is positively related to firm performance in environments with lower levels of investor protection. Many studies try to identify the effects of institutional ownership on firm performance. Some studies show that institutional shareholders might be good for corporate performance as these institutional shareholders take an active role in corporate governance. But, there is no definite confirmation of the positive impact of such shareholder activism on firm performance (for surveys, see Gillan and Starks, 1998; Black, 1998; Owen, 2005; Romano, 2001). Thomsen and Pedersen (2000) showed empirically that firm performance improves as ownership is more concentrated, but eventually declines in large companies in Europe. This finding implies that, at very high level of concentrated ownership, the positive relationship might turn negative because of the negative effect of the expropriation of small shareholders by large shareholders. LaPorta et al. (1999) found the main problem in large firms might be potential expropriation of smaller shareholders by large controlling shareholders. There are some empirical studies showing that concentrated ownership impact on the performance of acquiring firm is negative. But most empirical research shows a positive relationship. Therefore, the second Hypothesis in this study is built up based on the most prevailing results.

H2: Concentrated ownership is positively related to the performance of the acquiring firm.

The main purpose of this study is to investigate the influence of two main components of the corporate governance mechanism, namely anti-takeover provisions representing the external corporate governance mechanism and ownership concentration representing the internal corporate governance mechanism on the short and long term performance of overseas acquiring public Japanese firms.

DATA AND METHODOLOGY

Sample Construction

The acquisitions sample is extracted from the transaction database of S&P Capital IQ Platform. Some 222 observations are identified between the period January 1st, 2004 and December 31st ,2013. Because two years post acquisitions financial data is needed to gauge long term performance the sample was stopped at the end of 2013. The sample is based on the following criteria: 1.) The acquisition is completed, 2.) The acquirer controls less than 50% prior transaction and majority to 100% after the transaction, 3.) The deal value disclosed is more than $1 million, 4.) The acquirer is a listed public company in the Nikkei225 index

which has annual financial statement information available and stock return data (210 trading days prior to acquisition announcements), and 5.) The transaction is cross-border.

Research Methodology

This research employs quantitative methods of data analysis in two steps. The first step entails the event study analysis on the announcement of cross-border merger & acquisitions to determine cumulative abnormal returns (CARs) earned by the acquiring firm's shareholders. The second step is a series of liner multivariate regression analyses to understand the influence of corporate governance namely ATPs and level of ownership concentration on the short and long term performance. To determine short term performance metrics, cumulative abnormal returns with two event windows were used, 2 days before and after announcement date denoted by (CAR2) and five days before and after announcement date denoted by (CAR5). For long term performance measurement, an accounting based metric is used, return on assets (ROA). These three variables were used as dependent variables on the multivariate regression analyses. The main independent variables are Anti-Takeover Provisions Index (ATPINDEX), and Top 5 owner's cumulative percentage (TOP5OW) as the goal of this study is to reveal the influence of theses 2 corporate governance elements on the acquirer's performance. A number of control variables are included as following: Free Cash Flow (FCF), Market Value of Equity (MARKVAL), Leverage (LEVG), Firm size (FIRMSIZE), Relative deal size (DEALSIZE), Cross-border merger & acquisitions. experience (CBMAEXP). The details of each variable can be found in the next section (variables Construction). The following three regression models were used to achieve this study purpose:

$$CAR2 = \alpha + \beta 1\ ATPINDEX + \beta 2\ TOP5OW + \beta 3\ FCF + \beta 4\frac{M}{B} + \beta 5\ MARKVAL + \beta 6\ LEVG + \beta 7\ FIRMSIZE + \beta 8\ DEALSIZE + \beta 9\ CBMAEXP + \varepsilon \quad (1)$$

$$CAR5 = \alpha + \beta 1\ ATPINDEX + \beta 2\ TOP5OW + \beta 3\ FCF + \beta 4\frac{M}{B} + \beta 5\ MARKVAL + \beta 6\ LEVG + \beta 7\ FIRMSIZE + \beta 8\ DEALSIZE + \beta 9\ CBMAEXP + \varepsilon \quad (2)$$

$$ROA = \alpha + \beta 1\ ATPINDEX + \beta 2\ TOP5OW + \beta 3\ FCF + \beta 4\frac{M}{B} + \beta 5\ MARKVAL + \beta 6\ LEVG + \beta 7\ FIRMSIZE + \beta 8\ DEALSIZE + \beta 9\ CBMAEXP + \varepsilon \quad (3)$$

Variables Construction

Acquirer Return

As stated earlier two event windows are used in this study CAR2 is the cumulative abnormal returns 2 days before and after the announcement date e 0, and CAR5 is the cumulative abnormal returns 5 days before and after announcement date. The Cumulative Abnormal Returns is formed by summing individual excess returns over time as in equation (4),

$$CAR_{i,k,l} = \sum_{t=k}^{1} AR_{it} \quad (4)$$

Consistent with Masulis, Wang and Xie (2007) abnormal returns is estimated by using the market model. As shown in equation (5) the difference between the acquirer's stock return (R_{it}) and the expected stock return ($\alpha_i + \beta_i R_{im}$) is estimated with the acquirer's home country as market index. (R_{im}).

$$AR_{it} = R_{it} - \alpha_i - \beta_i R_{im} \quad (5)$$

The market model parameters are estimated utilizing daily stock price data over the 200-day estimation period and in this study is calculated specifically from event day -205 to event day -6.

ROA Variable

Return on Assets (ROA) is used to gauge the long term performance of acquiring firm. By using annual ROA data from the Eikon Thomson Reuters Database, this variable is calculated as the difference between the average value of 2 years post event and the average value of 2 years prior to event.

Anti-Takeover Provisions Index

In this study, an index is formed based on ATP index created by Bebchuk, Cohen, and Ferrell (2009), which known as BCF Index. The BCF index consists of six main components which have the most notable impact on firm performance: staggered boards, limits to shareholder bylaw amendments, limits to shareholder charter amendments, supermajority requirements for mergers, poison pills, and golden parachutes. Since Eikon Thomson Reuters Database has no information on limits to shareholder bylaw amendments and limits to shareholder charter amendments. These components will be substituted by one component which is Significant company transactions (M&A) shareholders' approval component. Therefore, in this study ATP index is based on five components: 1) Poison Pill, 2.) Staggered Boards Structure, 3.) Golden Parachute, 4) Supermajority or qualified majority Vote Requirement, and 5.) Significant Company Transactions (M&A) shareholders' approval. The ATP Index is based on scale from 0 to 5 with higher number representing stronger ATPs undertaken by the firm. Based on the five components, one point is assigned for limiting shareholder rights.

Ownership Structure Variable

This study examines the top 5 owners of the firm based on data available from Eikon Thomson Reuters database and the collective percentage of the top 5 owners during the quarter of which the event (acquisition) occurred and is denoted as (TOP5OW). This variable indicates the concentration level of ownership. Ownership structure is considered as important internal mechanism of corporate governance and it is widely known that it can provide good incentives for large shareholders to effectively monitor management. As the ownership stake of large shareholders or blockholders increases, the greater the incentive to increase firm performance and to monitor closely the management than dispersed shareholders. Also the concentrated actions and monitoring by large shareholders can be easier than diffused or dispersed shareholders. Large shareholders have both the interest and power to get their money back and demand it. There are obvious benefits from concentrated ownership and generally is considered to have positive relationship with firm performance.

Control Variables

Other variables which are of less interest in this study and are controlled for. Free Cash Flow (FCF) is extracted directly from Thomson Reuters Eikon database for the quarter in which the announcement occurred. Jensen's (1986) free cash flow hypothesis argues that FCFs have a negative effect on bidder returns. As managers have more resources available, it becomes easier to engage in empire building. It can however also be argued that higher FCFs are an indication of better firm performance. Performance could be correlated with higher quality managers that tend to make better acquisition decisions. Among the control variables is the Market to Book ratio (M/B), calculated by dividing the Market value of equity by the book value of equity during the quarter which the announcement occurred. This variable represent the growth opportunities. The third control variable is the Market Value of Equity (MARKVAL), defined as the product of multiplying the number of outstanding shares, on the quarter of the announcement, by stock price at the 11^{th} trading day prior to announcement date. Leverage (LEVG) is the fourth control variable. Leverage is often seen as an important governance mechanism. A higher debt to equity ratio reduces future FCFs due to interest obligations and it limits managerial discretion.

Leverage also increases the risk of bankruptcy and provides management with an incentive to improve company performance. Together with debt covenants, managers risk losing control to creditors and might lose their jobs when the firms fall into default. Garvey and Hanka (1999) argue that leverage is related to a

firm's takeover protection making it even more relevant as a control variable. Leverage is defined as total debt divided by a firm's market value of total assets during the quarter of the announcement.

The fifth variable is the Firm Size (FIRMSIZE) and is negatively correlated with the acquirers return as shown by Moeller, Schlingemann, and Stulz (2004). They find that on average larger acquirers make acquisitions that generate negative synergies. They also pay a higher premium than smaller acquirers. As in Roll (1986) they interpret the size effect as evidence supporting the managerial hubris hypothesis. Firm size is defined as the natural logarithm of the acquirer's total assets. Relative Deal Size (DEALSIZE) is the sixth variable. It is total transaction value divided by market value of equity during the quarter of the announcement. Moeller, Schlingemann, and Stulz (2004) and Asquith, Bruner, and Mullins (1983) find that acquirer announcement returns increase in relative deal size, but the reverse is true for a subsample of large acquirer in Moeller, Schlingemann, and Stulz (2004). This study focuses only on cross-border Merger & Acquisitions. Experience of acquiring firms in this type of transactions might be a factor which also affect the ultimate performance of the firm. This variable is used a dummy variable with 1 indicating that this is not first time for the firm to go for overseas transactions and 0 indicates that it is first time cross-border acquirer. This variable denoted as (CBMAEXP).

RESULTS AND DISCUSSION

Descriptive and Correlation Statistics

Prior to running the regressions, a descriptive statistics and a bivariate correlation analysis of the dependent and independent variables were conducted. Table 1 presents descriptive statistics for model variables which show that mean and median cumulative abnormal returns, used as metrics for short term performance, are negative and statistically not significant for both two and five-day event windows. Long term performance indicator (ROA) is almost neutral as its mean and median value is 0.14 and 0.2 respectively indicating there is almost no notable changes in the long-run performance. The median value of the ATPs index is 1. We consider any firm with 2 value or above having strong ATPs in place. Firms with 1 value have weak ATPs and firms with zero value have no ATPs. Table 2 shows the correlation matrix. Generally, there is not strong correlation between variables as there is no value over 0.8. The highest correlation value exists between CAR2 and CAR5 which is 0.687. But, both variables are dependent variables and used in separate regression analyses. The next highest value registered in the correlation matrix is 0.664 between firm size and market value of equity. The former represents the book size of the firm and the latter represents the actual and current market size and valuation of the firm. Both variables are used as control variables in the regression analyses which they are of less interest to our study.

Table 1: Descriptive Statistics of the Variables

Variables	Mean	Median	Max	Min	St.D
CAR2	-0.0029	-0.0001	0.0972	-0.1368	0.0395
CAR5	-0.0051	-0.0045	0.1481	-0.2483	0.0549
ROA	0.1459	0.2	16.6	-16.3	4.141
TOP5OW	21.523	19.08	72.31	9.62	10.920
ATPINDEX	1.459	1	3	0	0.8378
FCF	0.0496	0.0353	0.9073	-3.299	0.2980
LEVG	0.9473	0.5225	11.181	0.0006	1.196
M/B	1.476	1.199	12.284	0.167	1.111
FIRMSIZE	27.443	27.494	29.709	24.731	0.8731
MARKVAL	1.604	1.095	8.948	0.0533	1.488
DEALSIZE	0.0008	0.0001	0.029	0	0.0028
CBMAEXP	0.8693	1	1	0	0.3377

This table shows descriptive statistics of the dependent and independent variables. The dependent variables are (ROA) return on assets, (CAR5) cumulative abnormal returns for 5 days before and after announcement day and (CAR2) cumulative abnormal returns for 2 days before and after announcement day. Independent variables are (ATPINDEX) the index for anti-takeover provisions. (DEALSIZE) the relative deal size. (FCF) the free cash flow, (MARKVAL) the market value of equity, (TOP5OW) the aggregate ownership percentage of top5 owners. (M/B) market to book ratio. (FIRMSIZE) the firm size and (LEVG) the leverage measured at announcement day.

Table 2: Correlation Statistics

Variables	ATPINDEX	ROA	CAR5	CAR2	DEALSIZE	FCF	MARKVAL	TOP5OW	M/B	FIRMSIZE	LEVG
ATPINDEX	1										
ROA	-.0049	1									
CAR5	-0.015	-0.131	1								
CAR2	-0.006	-0.091	0.687**	1							
DEALSIZE	0.062	0.053	-0.022	-0.079	1						
FCF	-0.019	-0.005	0.011	0.022	0.027	1					
MARKVAL	-0.315**	-0.033	-0.048	-0.05	-0.122	0.235**	1				
TOP5OW	0.103	-0.059	0.007	0	0.034	0.131	0.146*	1			
M/B	0.087	0.041	-0.170*	-0.075	-0.028	0.06	0.371**	0.189**	1		
FIRMSIZE	-0.365**	-0.023	0.004	-0.084	-0.148*	0.145*	0.664**	-0.163*	-0.155*	1	
LEVG	-0.138*	0.061	-0.064	-0.06	0.064	-0.256**	-0.101	-0.279**	-0.250**	0.162*	1

*This table presents Pearson correlation statistics between the variables of the study (dependent and independent). The dependent variables are (ROA) return on assets, (CAR5) cumulative abnormal returns for 5 days before and after announcement day and (CAR2) cumulative abnormal returns for 2 days before and after announcement day. Independent variables are (ATPINDEX) the index for anti-takeover provisions. (DEALSIZE) the relative deal size. (FCF) the free cash flow, (MARKVAL) the market value of equity, (TOP5OW) the aggregate ownership percentage of top5 owners. (M/B) market to book ratio. (FIRMSIZE) the firm size and (LEVG) the leverage measured at announcement day. ** and * indicate significance at the 5 and 10 percent levels respectively*

Regression Analysis Results

Table 3 presents the results of the three regression analysis carried out in this study. The results show that the Anti-Takeover Provisions (ATPs) as an external corporate governance mechanism has a negative but statistically non-significant effect on the short term performance of the acquirer. This is represented by the two indicators, cumulative abnormal returns with 2 days before and after the announcement day (CAR2) and 5 days before and after the announcement day (CAR5). ATPs also has a negative influence on long term performance represented by (ROA) as shown on regression C. But ROA is statistically not significant. Generally speaking, ATPs have only minor negative influence on the short and long term performance of overseas acquiring public Japanese firms. This finding support weakly the hypothesis H_1: Anti-Takeover provisions have a negative relationship with the performance of the acquiring firms. This is weak support because all the three regression analyses revealed statistically non-significant relationships between ATPs and short-term performance as well as long term performance of acquiring firms. This appears inconsistent with the strong negative association documented in Masulis, Wang and Xie (2007). However, Core, Guay, and Rusticus (2006) and Bebchuk, Cohen and Wang (2013) argue that the adverse impact of ATPs has been positively moderated in the period after 2001. Since our sample includes more recent acquisitions than those used by Masulis, Wang and Xie (2007), our results are likely to reflect the diminishing association between ATPs and firm performance. We find statistically non-significant and very weak relationships (Beta = 0) found also between the internal corporate governance component represented through ownership concentrations (TOP5OW) and short term performance of acquiring public Japanese firms represented by CAR2 and CAR5. The relationship become negative with long term performance indicator (ROA) but statistically insignificant. Therefore, this finding of insignificant relationship between the ownership concentration and both short and long term performance of the acquiring public Japanese firms does not support our second hypothesis

H2: The concentrated ownership is positively related to the performance of the acquiring firm.

The Coefficient of determination (R2) values for the three regression models explains clearly the insignificant effect of the independent variables specifically ATPs and Ownership concentration on the dependent variables CAR2, CAR5 and ROA which are the indicators of firm short and long term performance. From R2 values, dependent variables only explain 3.6%, 4.3% and 1.9% of the variations of the dependent variables of regressions A, B and C respectively. Only M/B ratio variable has a statistically significant relationship with CAR5 at the 5% level but this variable is a control variable and not of interest to this study.

Table 3: Regression Results

	Regression A (Dependent: CAR2)		Regression B (Dependent: CAR5)		Regression C (Dependent: ROA)	
	β	P (Sig.)	β	P (Sig.)	β	P (Sig.)
ITERCEPT	0.291	0.042	0.125	0.546	-2.189	0.890
ATPINDEX	-0.001	0.710	-0.001	0.865	-0.357	0.336
TOP5OW	0.000	0.639	0.000	0.912	-0.018	0.533
FCF	0.003	0.719	-0.002	0.906	0.368	0.716
M/B	-0.006	0.071	-0.011	0.012**	0.410	0.233
MARKVAL	0.004	0.254	0.002	0.632	-0.265	0.461
LEVG	-0.002	0.469	-0.005	0.157	0.200	0.452
FIRMSIZE	-0.010	0.059	-0.004	0.584	0.108	0.851
DEALSIZE	-1.313	0.168	-0.448	0.733	71.214	0.478
CBMAEXP	0.001	0.881	0.003	0.818	-0.203	0.823
R2	0.036		0.043		0.019	

*This table presents results of the three regression analyses: regression A with (CAR2) the cumulative abnormal returns for 2 days before and after announcement date as dependent variable, regression B with (CAR5) the cumulative abnormal returns for 5 days before and after announcement date as dependent variable and regression C with (ROA) return of assets as dependent variable. Independent variables of interest are (ATPINDEX) the index for anti-takeover provisions and (TOP5OW) the aggregate ownership percentage of top5 owners. Other independent variables are (DEALSIZE) the relative deal size. (FCF) the free cash flow, (MARKVAL) the market value of equity, (M/B) market to book ratio, (FIRMSIZE) the firm size and (LEVG) the leverage measured at announcement day. R2 represents the coefficient of determination. ** indicate significance at the 5 percent level.*

CONCLUDING COMMENTS

Utilizing 222 observations, this study focuses on the influence of two aspects of corporate governance mechanism. Specifically we focus on Anti-Takeover Provisions as an external corporate governance element and Ownership Concentration as an internal corporate governance element on the short/long term performance of the cross-border public Japanese acquirers in the last decade. Quantitative methods of data analysis were used. Specifically, an events study and regression analysis are used to achieve the goals of this study. The event study methodology was used to calculate two short term market based metrics namely cumulative abnormal returns 2 days before and after the event (CAR2) and 5 days before and after the event (CAR5). For a long term performance indicator, an accounting based metric, Return on Assets (ROA) was used. The findings reveal that ATPs has almost a neutral influence on the short and long term performance of overseas acquiring public Japanese firms in the last decade. This finding does not support the managerial entrenchment hypothesis. Moreover, we cannot find strong evidence for self-dealing as there is no real shareholder value destruction caused by the cross-border merger & acquisitions. Performance did not change in the short or long run.

It seems that investors should be less concerned about ATPs in Japan as it seems that they are not as effective as in other developed markets. This study also finds no influence of ownership concentration, represented by the cumulative percentage of the top 5 owners, on the short and long term performance of cross-border acquirers. Almost no relationship exists, implying that an institutional and foreign ownership system, which replaced the old bank centered system in the last decade, still have not worked to enhance shareholder value. The limitation of this study is that we use only one Anti-Takeover Provisions Index. There were not many corporate governances related data sources available to construct several indices which can be used for comparison purpose and for testing the robustness of the index. For future research, more accounting based metrics such as Tobin Q and ROE can be included as dependent variables. The long term market based event study methodology, specifically the Buy and Hold Abnormal Returns (BHAR) is recommended to confirm the current study findings and to have better understanding.

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