SHAREHOLDER ACTIVISM IN JAPAN

Does shareholder activism create value?  
*The case of Japan*

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SHAREHOLDER ACTIVISM IN JAPAN

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EXECUTIVE SUMMARY

Shareholder activism is on the rise in Japan, with potential implications for the behaviour and performance of listed Japanese companies. The rise in activism has been encouraged by major reforms to Japan’s corporate legal and regulatory framework implemented since 2014, which have aimed to improve companies’ governance and financial performance. In terms of stewardship, an increasing number of asset managers embrace the Stewardship Code, which requires investors to monitor company practices and engage constructively with companies. The nation’s biggest institutional investor, the Government Pension Investment Fund of Japan (GPIF), has also contributed to the change in culture by requiring its asset managers to disclose and explain their voting records at AGMs of investee companies. Altogether, these forces have created the environment in which institutional investors have to be more active with their ownership in investee companies.

Shareholder activism in Japan has not yet developed to the same degree or in the ways it has in the United States and in Europe, where investors are increasingly focusing on so-called ESG issues – environmental, social and governance – when assessing listed companies. In Japan, by contrast, shareholder activism has been mainly concerned with governance and financial performance.

This paper examines the rise of shareholder activism in Japan, and its implications for shareholder returns.

Key findings

- Activist shareholders with high levels of equity ownership are more likely to succeed with their campaigns than shareholders with lower levels of ownership.
- The level of equity ownership of activist shareholders is typically highest in M&A-related cases and board-related cases.
- Positive short-term abnormal returns occur around the announcement of activist campaigns.
- Positive short-term abnormal returns are higher for M&A-related activism than for all other categories.
- Buy-and-hold excess returns are statistically positive within a 120-trading-day window. Beyond 120 days, no evidence of significant excess returns exists.
- Buy-and-hold excess returns generated by primary focus investors are significantly higher than that of individual shareholders and investors with only a partial focus on activism.
- We find no evidence for the impact of firm size and sector on activism-related excess returns.

Key Words: Shareholder activism, active ownership, Japan, activist investing

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INTRODUCTION

Shareholder activism is a relatively new phenomenon in Japan. Although there are some famous cases of (largely unsuccessful) shareholder activism dating back to the 1980s, it was not until the second decade of this century that changes in the regulatory environment facilitated rapid growth in activism, including some successful public campaigns by shareholders to force change.

Shareholders are getting more active in exercising their rights and responsibilities, regardless of their ownership levels and investment styles.

Shareholder activism could be defined broadly as the application of pressure by shareholders to influence or change company’s behaviour – typically involving issues of strategy, operation and performance or governance.

Not only those primarily focusing on activist investing, mainstream institutional investors have been more inclined to voice out what they think how the investee company should be run, especially to serve the best interest of all relevant stakeholders. Shareholders also have a richer toolkit to ensure that their voice is heard.

According to the Annual Investor Survey conducted by the International Corporate Governance Network (ICGN) on investors around the world, investors on average engage with 500 companies a year, which accounts for 33% of an investor’s workload. ICGN survey also reports that 90% of stewardship team reporting to the CEO/CIO, signalling the significant level of resources allocated to active ownership.

While investors around the world are getting more active in their ownership in portfolio companies due to the rise of “purpose investing” with environmental and social agenda, shareholder activism in Japan is still relatively limited to business performance and corporate governance concerns. This paper will discuss the type of issues that shareholders of Japanese firms are concerned about and the channels in which their concerns are raised in recent years.

Japan in early years of shareholder activism

Japan is a unique market for shareholder activism.

The past decades in Japan were full of examples of unsuccessful shareholder activism, particularly when it involved hostile campaigns by foreigners. Large corporate investors were not willing to support proposals put forward by foreign activists. The most famous of these came in 1989, when US investor T. Boone Pickens’ request for three board seats at Koito Manufacturing Co. was voted down by Toyota, a key shareholder and customer of Koito, and other shareholders. In 2000, the hostile takeover bid by Murakami Fund on the target firm, Shei Co., was voted down by other shareholders, led by the Fuyo Group. These were among several high-profile examples of cross-shareholdings – a common feature of Japanese corporate culture – and business ties being used to suppress shareholder activism in its early years.

Murakami Fund later did succeed with a few other campaigns in the early 2000s including Tokyo Style, Nippon Broadcasting System and Hanshin Electric Railway. The success, however, was soon ended when Murakami-San was arrested in 2006 due to insider trading.

In 2007, the effort of Steel Partners, a US activist fund, to stop a poison pill at Bull-Dog Sauce, was ruled against by the Court of Japan. Another failure of shareholder activism was the case when the
Children’s Investment Fund sought to increase its stake and board seats without success. The request of the shareholder, in this case, was rejected by Japan’s Trade Ministry due to strategic industry regulations.

Whether it was due to cross-shareholding and business ties or the protectionist regulatory environment, progressive activist shareholders did not seem to gain the support they needed from other shareholders in the early years of activism in Japan. Japanese corporate investors assumed the responsibility to protect the company they invested in. They viewed themselves, in that “inner circle” as insiders and activists, especially foreign activists, as outsiders, the Japanese “uchi-soto” philosophy. Cross-shareholding, often designed by management, provided insulation for the company and its cross-shareholders, which effectively weakened the rights of other shareholders.

Although the levels of cross-shareholding have decreased in recent years, they can still be high enough to present a barrier to external pressure. According to the Tokyo Stock Exchange’s Corporate Governance White Paper (2019), the current ratio of cross-shareholdings to total assets and cross-shareholdings to market capitalisation of TOPIX Index companies (excluding financial institutions) was 5.6% and 12% respectively. The existence of cross-shareholding structure exposes minority shareholders to governance risk.

Activists also face the persisting challenge of cultural resistance to the notion of shareholder rights, particularly given Japanese companies’ historical dependence on debt rather than equity financing. For Japanese executives, the company’s top priority is its ability to sustain over the long term and companies’ first obligations are to employees and customers, rather than to shareholders (Buchanan, Chai, & Deakin, 2012). Shareholders are often viewed as just another stakeholder, rather than the owner of the company, despite the efforts of the legal system to stipulate shareholder rights. Shareholder activism is not welcome by ‘disengaged’ Japanese management.

Japan under Abenomics

The recent growth in shareholder activism Japan has been supported by substantial changes in the corporate legal and regulatory environment implemented under Prime Minister Shinzo Abe – often referred to as ‘Abenomics’. The Revised Japan Revitalization Strategy approved by the Cabinet on June 30, 2015, aims at enhancing corporate value and capital efficiency with a mid- to long-term perspective.

The Corporate Governance Code (2015) and Stewardship Code (2014), and subsequent revisions to both, involved reforms aimed at enhancing corporate value and capital efficiency after decades of stagnation.

The regulatory and legal changes have also encouraged big increases in the level of equity held by foreign institutions in Japanese companies, which in turn has put additional pressure on historical norms in Japanese corporate culture.

Apart from the changes in the ownership and governance landscape, Japan is also considered to be in its golden age of activism due to the increasing pressure for firms to improve their capital allocation and ROE. Cash-rich firms, with low valuations, low efficiency and low profitability have become potential targets of shareholder activism. However, the amount of efforts and resources required for shareholder activism means that investors should carefully evaluate its costs and returns.

Definition

Shareholder activism comes in various forms; it can involve private engagement between the shareholder and the investee company, or public campaigns in which shareholders publicly
announce their proposals for the company. Shareholders can press their claims individually or collectively together with other stakeholders.

A company may be the target of multiple public activist campaigns, often involving a series of demands put forward by investors. An example of Toshiba Corp. illustrates the company being targeted by different campaigns.

- **Campaign**: A campaign refers to the situation when the company receives one or more demands from one or more than one activist shareholders on a given date. Different demands raised to a company on different dates will be counted as separate campaigns. If the campaigns on the same company are related to the same request, the first campaign will be tagged with the “first demand” tag.

- **Demand**: A demand is a single request the company receives from one shareholder.

Unless stated otherwise, the unit of analysis presented in this paper is each campaign, rather than demand.

The challenge is that much of shareholder activism happens behind closed doors, which we will not be able to include in the analysis due to limited data. Going public with a demand for the company could be the last resort for many investors.

**Data description**

A large proportion of shareholder activism in Japan cannot be reliably analysed because it happens behind closed doors. Hence, our study is by necessity confined to only public campaigns on companies that are headquartered in Japan during the period of Jan 2013 – June 2019, as compiled by the Activist Insight Database. Most of them were listed either on Tokyo Stock Exchange, Nagoya Stock Exchange or JASDAQ. There are no size filter. All available campaigns were analysed.

Campaigns were dated and classified according to the calendar year in which a demand was made rather than the date when the response was received, or the campaign concluded.

Stock prices and market returns were collected from Morningstar Direct and Datastream databases. All values are denominated in US dollars unless otherwise stated. ‘Day’ refers to the trading day, not calendar day.

**The study explores two main issues:**

- Why shareholders become activists, and the tools they employ to do so, and
- Whether shareholder activism succeeds in improving returns to shareholders.

*The term “shareholder proposal” is used in Japan and the United States, whereas in Australia, an equivalent term is “members’ resolution”.*
SHAREHOLDER ACTIVISM IN JAPAN

Evidence of the critical mass

The number of shareholder proposals and companies receiving them has been increasing substantially in Japan in recent years. Before delving into the impact of activists on target companies, it is instructive to have an overview of the scale of the activity and its key players.

![Diagram showing Activists' Campaigns and Exits from 2013 to 2019](image)

The significant growth in public shareholder activism in Japan between January 2013 and June 2019 is illustrated in Figure 1.

The activist exit number refers to the number of activists getting out of their ownership position of the companies included in this analysis. A notable feature of the figures is the relatively low number of shareholder activists (34) known to have divested their shareholdings after campaigns (‘known exits’). That means there are 212 campaigns of activist shareholders still owning the stock or unknown exits.

Companies

This survey of shareholder activism in Japan includes public demands received by companies that are listed in Japan. A total of 246 activist campaigns targeted 130 different companies with 456 individual demands. There have been a few notable trends in the last few years.

Sample composition by sector:

Approximately two-thirds of the companies were in Consumer Goods, Services and Technology Sectors.

![Diagram showing Sector distribution of companies facing shareholder activism](image)

![Diagram showing Companies with shareholder campaigns by market cap](image)
In terms of market capitalisation, the most popular segments for shareholder activism were small-cap (34%) and micro-cap firms (23%). Indeed, the focus of shareholder activism on the smaller firms in the market has not always been there. From 2013 to 2015, there were more public shareholder proposals on large-cap firms. However, from 2015, while the number of demands addressed large-cap firms still increased each year, much stronger growth has been seen in the number of small-cap and micro-cap firms receiving shareholder demands publicly.

Defining activist shareholders

Who are they?

Shareholders are increasingly proactive in exercising ownership rights. We define an ‘activist shareholder’ as a shareholder that publicly demands the company to change. In this broad sense, activist shareholders are those that seek change in the company, regardless of whether activist is their primary investment strategy or not. We do not limit the analysis to hedge fund activists.

Activist Insight identifies two broad categories of activist shareholders – concerned shareholders and institutional investors, with the latter including the subcategories of primary activist, partial focus, occasional focus and engagement focus. The detailed description of each type is provided in the Appendix.
SHAREHOLDER ACTIVISM IN JAPAN

<table>
<thead>
<tr>
<th>Activist investor type</th>
<th>No. of investors</th>
<th>No. of Demands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutional Investors</td>
<td>55</td>
<td>277</td>
</tr>
<tr>
<td>Primary Activist</td>
<td>13</td>
<td>110</td>
</tr>
<tr>
<td>Partial Focus</td>
<td>13</td>
<td>97</td>
</tr>
<tr>
<td>Occasional Focus</td>
<td>23</td>
<td>64</td>
</tr>
<tr>
<td>Engagement</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Concerned Shareholder</td>
<td>56</td>
<td>179</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>111</strong></td>
<td><strong>456</strong></td>
</tr>
</tbody>
</table>

There have been 55 identified activist institutional shareholders, 13 of which had activist investing as their primary focus, i.e., the main investment strategy. Among them, four were based in Japan, five in the United States and the others were based in Singapore and the United Kingdom.

At the top of the list of activist shareholders is Strategic Capital, Inc., with activist investing as a primary focus. Strategic Capital targets small listed firms in Japan, a niche segment of the market, where corporate governance quality remains to be an issue. Unlike the large-cap and mid-cap segments in which foreign institutional investors actively push companies for corporate governance improvement, the small-cap segment seems to stay below the radar.

<table>
<thead>
<tr>
<th>Activist Shareholders</th>
<th>No. of demands</th>
<th>Year founded</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Capital, Inc.</td>
<td>50</td>
<td>2012</td>
</tr>
<tr>
<td>Oasis Management Company</td>
<td>34</td>
<td>2002</td>
</tr>
<tr>
<td>M&amp;S LLC</td>
<td>18</td>
<td>2016</td>
</tr>
<tr>
<td>Argyle Street Management</td>
<td>17</td>
<td>2002</td>
</tr>
<tr>
<td>Horizon Capital Management SA</td>
<td>16</td>
<td>1999</td>
</tr>
<tr>
<td>Sparx Group</td>
<td>11</td>
<td>1989</td>
</tr>
<tr>
<td>Third Point Partners</td>
<td>11</td>
<td>1995</td>
</tr>
<tr>
<td>RMB Capital Management</td>
<td>9</td>
<td>2005</td>
</tr>
<tr>
<td>Dalton Investments</td>
<td>8</td>
<td>1999</td>
</tr>
<tr>
<td>Effissimo Capital Management</td>
<td>8</td>
<td>2006</td>
</tr>
<tr>
<td>The Children's Investment Fund Management (TCI)</td>
<td>7</td>
<td>2003</td>
</tr>
</tbody>
</table>

Similar to the broad global trend, activism increasingly comes from infrequent activists. In the US, infrequent activists ran 68% of public shareholder activism campaigns in 2018, whereas in Japan, during our analysis period, approximately 76% of campaigns were initiated by investors that are not activist hedge funds.

Approximately half of the reported cases of public shareholder activism involved to individual shareholders, classified as “concerned shareholder”, with most were based in Japan. Shareholders sometimes operate in groups if they share the same concern on a company. An example was the case of 105 concerned shareholders holding less than 1% of the equity of Kansai Kinki Electric Power Co. Inc in 2018, sharing the same concern on dividends, remuneration and dismissal of a board member. Another case was a group of 130 concerned shareholders (and former employees) of Takeda Pharmaceutical in 2018. The activist shareholders opposed the company’s 46-billion-pound acquisition deal that cost the company almost $1 billion in expenses and fees to advisers. They also requested a Bylaw amendment that requires advance shareholder approval for large acquisitions. Despite their size, the concerned shareholder groups in both cases mentioned above were unsuccessful with their demands.

Approximately 76% of campaigns were initiated by investors that are not activist hedge funds.

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5 Info collected from Activist Insight Database
What do shareholders want from activism?

Key areas of investor concerns included company balance sheets, boards and other corporate governance issues (See Figure 5 below).

![Figure 5: Group of Demands by Investor Type](image)

Specific agenda items include their demands for bylaw amendment (95), higher dividends (68 cases), share repurchase (33), board representation (57), CEO/director removal (44), and remuneration (26). There were also other important concerns of shareholders about auditor replacement, disclosure and transparency, CEO and Chairman separation. However, these demands did not occur so frequently.

While primary focus and partial focus activists seem to raise more concerns about company balance sheets, concerned individual shareholders tend to focus on other governance and board related issues.

What do activist shareholders own? Does that matter?

The level of equity holdings of activist investors varied significantly according to their specific interests and the ultimate outcomes.

![Figure 6: Equity holding of activist shareholders](image)

The equity percentage held at the first demand date of activist shareholders pursuing M&A and board issues was significantly higher than in other cases. Also, as shown in Figure 6 (above),
shareholders tend to accumulate more shares after their proposal was made publicly. The mean increase in holdings, measured as a percentage of total equity, was 1.28%, statistically significant.

As shown in Figure 7, shareholders whose proposals succeeded tended to have significantly higher equity levels than those associated with unsuccessful or ongoing/unresolved proposals. This is consistent with findings from other markets, analysed by Matthew R. Denes (2017), that shareholder activism without a substantial block of shares is often ineffectual.

**Figure 7: Equity Holding of First Demand of Investors and Activist Outcome**

**Company responses to shareholder demands**

Japanese culture values harmony and this is reflected in how companies deal with shareholder demands. Typically, companies wait until general shareholder meetings. Therefore, companies receiving shareholders’ demands face enormous pressure at AGM. However, this presents practical issues for activist shareholders.

The key issue is that most AGMs are crammed into a short period around the end of June. During the fiscal year ended March 31, 2018, 38.6% of firms tried to avoid peak days for their AGM. Companies distribute materials related to shareholder meetings, including shareholder proposals to vote, around two to three weeks before the meeting. According to the Tokyo Stock Exchange, in 2018, only 1.1% of listed firms dispatch convening notices for general shareholders meetings four weeks in advance. It could mean that an institutional investor with a large number of companies in the portfolio would have little time to digest information on the shareholder proposals for their voting decision.

AGMs are generally short with few questions accommodated. There were cases in which the main part of the meeting lasted for only 30 minutes. Management tends to set AGM target being short duration and minimum questions from shareholders. Only 31.4% use electronic voting platform for institutional investors and only 35% prepare AGM convening notice in English.

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6 Tokyo Stock Exchange Corporate Governance White Paper 2019
Another issue of AGMs is the barrier in the current proxy infrastructure that may prevent foreign shareholders from effectively exercising their voting rights. Under the Japanese Companies Act, only shareholders on the shareholders’ registry are legally allowed to attend the AGM, question the company, submit shareholder proposals and exercise other voting rights. It may sound surprising to some, but not all shareholders in Japan get to vote. This happens when a foreign investor is not recognised as a shareholder of record despite being the ultimate beneficial owner. Apart from the opacity and complexity of voting, if a foreign shareholder is not recognised as a shareholder of record, the investor is not eligible to attend the AGM or to submit shareholder proposals at AGM. It is the “out-of-date proxy infrastructure, which has yet to catch up” that makes shareholder equality suffer.

Companies also tend to avoid public confrontation with shareholders, with only a minority of cases examined in this study leading to public disagreement. These included 32 cases of proxy contests, three litigations, ten public rejections of special meeting request, and ten public rejections of activist demands. In 133 other cases, there were no public responses to the shareholders’ demands.

### Types of outcome

<table>
<thead>
<tr>
<th>Type of activist investor</th>
<th>Success rate</th>
<th>Year</th>
<th>Success rate</th>
<th>Demand Group</th>
<th>Success rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concerned Shareholder</td>
<td>9.5%</td>
<td>2013</td>
<td>13.0%</td>
<td>Balance Sheet</td>
<td>8.2%</td>
</tr>
<tr>
<td>Engagement</td>
<td>33.3%</td>
<td>2014</td>
<td>10.3%</td>
<td>Board Related</td>
<td>18.3%</td>
</tr>
<tr>
<td>Occasional</td>
<td>15.6%</td>
<td>2015</td>
<td>9.1%</td>
<td>Business Strategy</td>
<td>22.2%</td>
</tr>
<tr>
<td>Partial Focus</td>
<td>13.4%</td>
<td>2016</td>
<td>15.0%</td>
<td>M&amp;A Activism</td>
<td>27.3%</td>
</tr>
<tr>
<td>Primary Focus</td>
<td>13.6%</td>
<td>2017</td>
<td>20.5%</td>
<td>Other Governance</td>
<td>7.6%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2018</td>
<td>13.3%</td>
<td>Remuneration</td>
<td>3.8%</td>
</tr>
<tr>
<td>Overall</td>
<td>12.5%</td>
<td>2019</td>
<td>6.7%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Overall, the success rate based on the whole sample is 12.5%. The success rate is calculated by the number of successful cases and partially successful cases divided by the total number of cases.

The success rate of institutional shareholders with engagement strategy is highest, 33.3%, while concerned shareholders have the lowest success rate. There was a shareholder requesting Nomura Holdings to change its name to Yasai (Vegetable) Holdings in pursuit of “corporate-wide mindset reform” in 2012. The same shareholder also proposed to change the company’s toilets to Japanese-style toilets, among the total of 100 proposals. Another company, Toshiba Corp, received more than 200 proposals from a shareholder during nine consecutive meetings of shareholders before and in 2015. These are just some examples of among other proposals from individual shareholders that were viewed as lack of merit. Many of these proposals were not qualified to be put on the AGM agenda for voting. The quality and merit of proposals from individual shareholders, in many cases, are so questionable that large institutional investors suggest a minimum holding time eligibility for putting forward a proposal for a vote to avoid Vegetable Holdings-type proposals.

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7 Guideline on Attendance at the General Shareholders Meetings of Japanese Listed Companies by Global Institutional Investors: [https://www.kabukon.tokyo/data/guidelines/guideline_2015_e.pdf](https://www.kabukon.tokyo/data/guidelines/guideline_2015_e.pdf)
8 In such cases, the name on the shareholders’ registry of a Japanese-listed company is the sub-custodian. In order to vote, the foreign investor will have to instruct the custodian, the shareholder of record, on how they would want to vote via electronic proxy services.
9 Symphony Financial Partners – Symphony Flash Update (2019)
10 [https://www.sec.gov/Archives/edgar/data/1163653/000119312512255251/d356027d6k.htm](https://www.sec.gov/Archives/edgar/data/1163653/000119312512255251/d356027d6k.htm)
12 Toshiba Corp., Convocation Notice of the Extraordinary General Meeting of Shareholders 2015.
SHAREHOLDER ACTIVISM AND INVESTMENT RETURNS

Announcement abnormal returns

A key focus of the study was whether shareholder activism is associated with abnormal returns to shareholders. Abnormal returns are essential in understanding the stock’s risk-adjusted performance, the unusual profit, generated by an event. The underlying logic is that the event, in this case, the announcement of a shareholder proposal or demand, may create a rate of return from the stock which is different from what would be normally expected, its expected return.

Defining announcement date

The announcement date (Demand Date) is recorded by Activist Insights. It represents the date on which it was first publicly known that the activist made the demand of the company. The date information is sourced from a press release, news story, an activist or a regulatory filing.

This analysis was based on campaigns rather than demands. A campaign may involve multiple demands from multiple shareholders, made on the same date to the company. There were 246 campaigns analysed in this study.

Figure 8: Abnormal returns on the announcement date

Abnormal returns – the base model and other models

The estimated expected return is based on an asset pricing model reflecting the security’s normal risk characteristics. We used the market model to estimate expected returns, with market return being the return from the Tokyo Price Index – commonly referred to as TOPIX.

For robustness, based on the characteristics of firms in our sample, we also used the daily returns of MSCI Japan Small-Cap Value Index (MXJP00SV Index14) as market return in the market model. Furthermore, we included the three-factor Fama-French model for Japan instead of the standard market model. We collected factor premium data from the Fama/French Data Library15.

14 The MSCI Japan Small-Cap Value Index (MXJP00SV) started from 18 Sep 2008.
15 Fama/French Data Library: http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html
The distribution of the abnormal returns around announcement did not vary significantly across the three models. So for brevity, we report abnormal returns of the base model; the rest is provided in the appendix.

Table 1: Abnormal Returns on Announcement Date

<table>
<thead>
<tr>
<th>Year</th>
<th>Demand</th>
<th>Count</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Median</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>14</td>
<td>-3.30</td>
<td>1.99</td>
<td>-0.92</td>
<td>-1.08</td>
<td>-1.39</td>
<td>3.33</td>
</tr>
<tr>
<td>2014</td>
<td>18</td>
<td>-1.16</td>
<td>23.93</td>
<td>1.47</td>
<td>0.015</td>
<td>2.96</td>
<td>5.96</td>
</tr>
<tr>
<td>2015</td>
<td>27</td>
<td>-1.66</td>
<td>5.46</td>
<td>0.72</td>
<td>0.22</td>
<td>1.97</td>
<td>3.33</td>
</tr>
<tr>
<td>2016</td>
<td>24</td>
<td>-3.87</td>
<td>18.11</td>
<td>0.49</td>
<td>0.42</td>
<td>3.20</td>
<td>3.33</td>
</tr>
<tr>
<td>2017</td>
<td>41</td>
<td>-3.17</td>
<td>15.27</td>
<td>0.25</td>
<td>0.25</td>
<td>2.86</td>
<td>3.33</td>
</tr>
<tr>
<td>2018</td>
<td>67</td>
<td>-4.57</td>
<td>17.92</td>
<td>0.55</td>
<td>-0.12</td>
<td>3.79</td>
<td>3.33</td>
</tr>
<tr>
<td>2019</td>
<td>55</td>
<td>-3.72</td>
<td>11.86</td>
<td>0.84</td>
<td>0.47</td>
<td>2.74</td>
<td>3.33</td>
</tr>
<tr>
<td>Total</td>
<td>246</td>
<td>-4.57</td>
<td>23.93</td>
<td>0.68</td>
<td>0.10</td>
<td>3.33</td>
<td>3.33</td>
</tr>
</tbody>
</table>

What happened on and after the announcement date?

On the announcement date of a shareholder demand, the mean abnormal return (AR(0)) is 0.68%, statistically different from zero. This suggests that for that day, investors earn a return of 0.68% higher than what they should normally expect for these stocks. Given the total market value of these firms of almost USD1.23 trillion, 0.68% abnormal return means an addition of wealth of $8.4 billion for investors just on the announcement date.

Cumulative abnormal returns

Cumulative abnormal return (CAR) is the sum of all daily abnormal returns, typically in a small window of time. The short duration of the examined window is to ensure that the abnormal returns, if observed, are not associated with any other confounding events. In this paper, we have considered all symmetrical windows among the range of ten days pre- to post-event, as well as the ten-day post-event window.
Evidence of significant cumulative abnormal returns appeared around six trading days before the news was announced. CAR remained significant from Day (-6) to Day (+10), signalling the existence of pre-event trends, pre-trends\textsuperscript{16}. As can be seen from Figure 9, a substantial part of abnormal returns was accumulated on the announcement date and the first-day post announcement.

Table 2: Cumulative abnormal returns across different windows

<table>
<thead>
<tr>
<th>Day window starts</th>
<th>CAR(-1,+1)</th>
<th>CAR(-2,+2)</th>
<th>CAR(-3,+3)</th>
<th>CAR(-4,+4)</th>
<th>CAR(-5,+5)</th>
<th>CAR(-10,+10)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Day window ends</td>
<td>-1</td>
<td>-2</td>
<td>-3</td>
<td>-4</td>
<td>-5</td>
<td>-10</td>
</tr>
<tr>
<td>Cumulative abnormal return</td>
<td>1.665***</td>
<td>1.691***</td>
<td>1.564***</td>
<td>1.705***</td>
<td>1.867***</td>
<td>3.444***</td>
</tr>
<tr>
<td>(0.378)</td>
<td>(0.449)</td>
<td>(0.479)</td>
<td>(0.527)</td>
<td>(0.580)</td>
<td>(0.789)</td>
<td></td>
</tr>
<tr>
<td>Observations</td>
<td>246</td>
<td>246</td>
<td>246</td>
<td>246</td>
<td>246</td>
<td>246</td>
</tr>
</tbody>
</table>

As the CARs were positive and were statistically significantly different from zero for all symmetrical windows examined, there was strong evidence of positive abnormal returns for investors around the event announcement date. It could also signal that the market, in general, treats the announcement of shareholder proposals positively, possibly in anticipation of good outcomes for the company.

Our results were similar findings published on investor activism in Japan in the period between 1998 and 2009. Hamao and Matos (2018) document a run-up of about 1% in the five days prior to the filing date of a large shareholding by an activist investor and an abnormal return of 1% on the date. They also report a +1.8% of buy-and-hold abnormal return for the (-5,+5) trading day window.

Cumulative abnormal returns by demand group

\textsuperscript{16}In economic and finance literature, the existence of pre-trends can be due to endogeneity of the treatment (event) or anticipation of such event.
It could be seen that CARs for campaigns related to M&A were higher than those related to other categories. Furthermore, single-demand campaigns deliver higher short-term announcement returns than multiple-demand campaigns.

We also found evidence of statistically significant cumulative abnormal returns across all post-event windows. This implies an opportunity for other investors to benefit from the abnormal price movement of a stock after an activist announces the demand on the company publicly.

Table 3: Cumulative abnormal returns in post-event windows

<table>
<thead>
<tr>
<th>Number of days</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
<th>(7)</th>
<th>(8)</th>
<th>(9)</th>
<th>(10)</th>
<th>(11)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Day window starts</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Day window ends</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>8</td>
<td>9</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>CAR (%)</td>
<td>0.671***</td>
<td>1.505***</td>
<td>1.905***</td>
<td>1.499***</td>
<td>1.648***</td>
<td>1.576***</td>
<td>1.781***</td>
<td>1.932***</td>
<td>2.192***</td>
<td>2.223***</td>
<td>1.189***</td>
</tr>
<tr>
<td></td>
<td>(0.212)</td>
<td>(0.378)</td>
<td>(0.388)</td>
<td>(0.425)</td>
<td>(0.541)</td>
<td>(0.502)</td>
<td>(0.592)</td>
<td>(0.589)</td>
<td>(0.582)</td>
<td>(0.596)</td>
<td></td>
</tr>
<tr>
<td>Observations</td>
<td>246</td>
<td>246</td>
<td>246</td>
<td>246</td>
<td>246</td>
<td>246</td>
<td>246</td>
<td>246</td>
<td>246</td>
<td>246</td>
<td>246</td>
</tr>
</tbody>
</table>

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Buy-and-hold excess returns

After a short-term surge in the abnormal returns around announcement date, does shareholder activism lead to increased share values over longer timeframes?

The abnormal returns of a stock could be affected by other confounding events if measured over a long window of time. Therefore, over long periods such as 30, 60, 120, 180 and 250 trading days, we examined buy-and-hold excess returns (BHER) of the stock instead of cumulative abnormal returns. Excess returns are returns achieved in excess of the return of a benchmark. For a closely comparable proxy with similar risk and return characteristics, we use TOPIX Index and MSCI Japan Small-cap Value Index (MXJP).

Table 4: Buy-and-Hold Excess Returns (BHER)

<table>
<thead>
<tr>
<th>Window - Number of days</th>
<th>30</th>
<th>60</th>
<th>90</th>
<th>120</th>
<th>180</th>
<th>250</th>
</tr>
</thead>
<tbody>
<tr>
<td>BHER_MXJP (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2.499**</td>
<td>3.061*</td>
<td>3.810**</td>
<td>3.177*</td>
<td>1.671</td>
<td>1.636</td>
</tr>
<tr>
<td></td>
<td>(3.14)</td>
<td>(2.52)</td>
<td>(2.93)</td>
<td>(2.22)</td>
<td>(0.98)</td>
<td>(0.76)</td>
</tr>
<tr>
<td>BHER_TOPIX (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2.699**</td>
<td>3.450**</td>
<td>4.467**</td>
<td>4.097**</td>
<td>3.283</td>
<td>3.355</td>
</tr>
<tr>
<td></td>
<td>(3.26)</td>
<td>(2.83)</td>
<td>(3.45)</td>
<td>(2.81)</td>
<td>(1.84)</td>
<td>(1.49)</td>
</tr>
<tr>
<td>N</td>
<td>244</td>
<td>225</td>
<td>197</td>
<td>183</td>
<td>172</td>
<td>160</td>
</tr>
</tbody>
</table>

t statistics in parentheses

* p<0.05  ** p<0.01  *** p<0.001

The excess return of a stock equals the difference between the return an investor would earn from buying the stock on the announcement date and holds until the last day of the respective window and the return on the benchmark for that period. For example, the 30-day BHER equals the investor’s 30-day buy-and-hold return taking away the market’s buy-and-hold return.

Based on both TOPIX and MXJP indexes, BHER were statistically significantly positive for investors who bought the stock on the announcement day and holds it for 120 trading days or less. For a holding period of 30 days, investors on average earned 2.7%, or an annualised of 25%, over the return produced by TOPIX. The 4.1% BHER (120 days) were equivalent to 8.8% p.a. over TOPIX returns. However, beyond 120 days, BHER did not remain significant.
The BHER over the TOPIX benchmark was higher than that over the MCXP Index, which could be explained in part by the size bias (small-cap and micro-cap) and value bias of the study sample.

**Excess returns by types of shareholder proposal**

At a more granular level, we observed different price trajectories for different types of demands (see Figure 12 below). While shareholder proposals related to Remuneration, M&A, Balance Sheet and Other Governance were associated with positive BHERs, those related to Strategy, Board, and Other issues did not. The difference among BHER of the groups of demand was, however, statistically insignificant, across various windows.
As shown by Figure 13, stock excess returns after shareholder demands related to dividends, share repurchase and remuneration were higher than other demands. Specifically, the post-announcement excess returns for companies receiving demands involving CEO/Director removal and auditor replacement on average went to the negative zone.

Post-proposal BHERs were significant for primary focus activists and engagement focus activists but not for other categories. Pairwise comparison, in Figure 14, showed that post-event stock returns were higher for Primary Focus Activists than those proposed by partial focus activists.

In the short term, as shown in Figure 15, within the first six months, there was no significant difference among post-campaign excess returns of firms. However, when the return window is extended to one year, there was noticeable divergence in the return trajectory of firms of different sizes. Post-campaign BHER of mid-cap firms outperformed the whole sample whereas BHER of nano-cap firms went into negative zone.

It could also be noted that during a year after campaign, while large-cap firms did not outperform in terms of returns, their BHER volatility was the lowest. BHER of other firms exhibited much greater volatility.
Trading volume

**Figure 16: Volume change at different key dates**

Figure 16 depicts the stock volume change/market volume change (VCR) ratio, across different types of the event date. The volume change ratio is determined by the following formulae.

\[
VCR = \frac{Stock\ Volume\ Change}{Market\ Volume\ Change}
\]

Where:

\[
Volume\ Change = \frac{Volume\ on\ Day\ 0}{\text{Moving\ Average\ of\ Volume\ }(-20, -1)}
\]

On the date investors announced their investment in a stock, its stock volume changed by 3.5 times the change of the market volume. This change in volume could be due to the purchase of shares of the investors themselves. However, the event could also induce special attention and interest in the market, leading to a surge in the volume of the stock.

The change in volume was most significant around the date the investor made the investment or accumulated beyond the 5% reporting threshold. The change in volume on the day of demand announcement was greater for the first demand than that observed for subsequent demand announcement.

**CONCLUSION**

Despite the rise of shareholder activism in Japan in recent years on the back of major legal and regulatory changes, deeply rooted cultural and structural barriers remain to the success rate of shareholder demands on companies. Nevertheless, our study reveals evidence of statistically significant short-term abnormal returns to investors after the launch of activist campaigns by shareholders.

While we found such abnormal returns do not hold for the medium and long term, it does not follow, necessarily, that shareholder activism is having little impact. Indeed, it is quite possible that the emergence and rise of the general threat of activism may have caused companies to pre-emptively change their behaviour – to be more receptive and attuned to the interests of shareholders to head off the possibility of direct conflict. Additionally, as engagement between shareholder activists and
companies, particularly large ones, often happens behind closed doors, the extent and outcome of this activity could be underestimated.

The existence of short-term positive abnormal returns suggests that active engagement between investors and companies could potentially unlock shareholder value. The wider impact of shareholder activism in Japan, while difficult to measure, is certainly worthy of further inquiry beyond this study.
Robustness

The following regression models were conducted to tease out if the announcement date did have a significant impact on stock returns.

Table 5: Regression models

<table>
<thead>
<tr>
<th>Variable</th>
<th>TOPIXPR</th>
<th>TOPIX Value</th>
<th>TOPIX Small</th>
<th>MXJP005V</th>
<th>FF3</th>
<th>FF5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand Date</td>
<td>0.479*</td>
<td>0.494*</td>
<td>0.492*</td>
<td>0.506*</td>
<td>0.468</td>
<td>0.471</td>
</tr>
<tr>
<td>TOPIXPR</td>
<td>0.799***</td>
<td>0.725***</td>
<td>0.765***</td>
<td>0.696***</td>
<td>0.878***</td>
<td>0.866***</td>
</tr>
<tr>
<td>TOPIX Value</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MXJP SV</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FF_MKTREF</td>
<td>-0.026*</td>
<td>-0.026*</td>
<td>-0.022*</td>
<td>-0.022*</td>
<td>-0.017</td>
<td>-0.017</td>
</tr>
<tr>
<td>FF_SMB</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FF_HML</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FF_RMW</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FF_CMA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>_cons</td>
<td>81899</td>
<td>81899</td>
<td>81899</td>
<td>81899</td>
<td>81899</td>
<td>82383</td>
</tr>
</tbody>
</table>

In these panel data regression models, the dependent variable is daily stock return. The key independent variable is a dummy variable receiving the value of 1 on an announcement date and 0 for other days. Daily stock returns are regressed against the Demand Date Dummy and the daily market returns. Various selection of proxy for market returns include:

- TOPIX Price Index returns,
- TOPIX Value Index returns,
- TOPIX Small Index returns,
- MSCI Small-cap Value Index returns,
- Fama French 3 factor return model, and
- Fama French 5 factor return model

All regressions were modelled with an instrumental variable (IV) to treat the endogeneity issue. Further explanation and regression equations are available upon request. The result suggests a positive coefficient for Demand Date Dummy, significant at 10% level, which is consistent with the significant abnormal returns observed on the announcement date reported earlier in this report.
**Abnormal returns – other models**

Distribution of abnormal returns upon announcement based on the market model using return on the TOPIX Index as market return.

Abnormal returns upon announcement based on the Fama & French Three-factor model

Abnormal returns upon announcement based on the market model using return on MXJP Small Cap – Value Index as market return.
Classification of Activist Shareholders

**Primary focus** activists are defined by Activist Insight as investors who proactively and systematically identify and target underperforming companies, attempting to enhance shareholder value through the execution of shareholder activism, and for whom activist investments typically form a significant majority of their investment portfolios. Primary focus activists are typically but not exclusively hedge funds.

**Partial focus** activists also proactively and systematically target underperforming companies as part of an established activist investment strategy. However, they differ from primary focus activists in that activist investments will tend to comprise only a portion of their investment portfolios alongside assets acquired through the employment of other investment strategies.

**Occasional focus** activists are defined by Activist Insight as those investors for whom activist investing does not typically comprise a frequently-used strategy within their broader investment philosophies. Rather than proactively targeting underperforming companies with the goal of improving shareholder value, these otherwise usually passive shareholders often react instead with demands for change to the underperformance of portfolio companies, in a bid to protect their existing investments.

**Engagement focus** activists are those investors that have escalated their otherwise typical investment stewardship responsibilities in order to protect and enhance shareholder value. These activists will adopt or otherwise publicly support activist strategies with the objective of achieving or maintaining for their portfolio companies best-in-class ESG characteristics. Engagement focus activists are typically but not exclusively mutual fund managers who often operate through the submission of shareholder proposals.

**Concerned shareholders** are defined by Activist Insight as individual shareholders, or groups of shareholders, who attempt to enforce change typically at a single company in response to poor performance or other grievances. Typically, these one-off situations are advanced by former directors or management, or related parties.


