

Comment on “Foreign Investors and Corporate Governance in Japan” by C. Ahmadjian

Hiroshi Osano
Kyoto University

Summary of the Paper

- Purpose of this paper

This paper examines foreign portfolio investors and their effect on corporate governance in Japanese firms.

- Results of this paper

- 1) Foreign portfolio ownership of Japanese equity increased significantly in the early 90's.
- 2) Foreign investors were advocates of Anglo-American style corporate governance.
- 3) Foreign investors influenced Japanese firms through both exit (stock trading) and voice (meeting with senior executives).

4) There has been a clear relationship between foreign investors and practices related to corporate governance such as board independence, transparency and disclosure, and propensity to downsize and divest assets.

Comment on the Paper

- Problem of the testing method

All the results on the relationship between foreign investors and practices related to corporate governance are obtained just by comparing the difference between the foreign ownership levels of high and low JGCIndex groups significant at the 1% level, or by a simple linear regression between the downsizing and foreign ownership levels.

- Requirement of the control variables

At least, multiple regression methods should be used to check whether the effect of foreign investors is still significant after another important factors are fully controlled.

Comment on “The Unwinding of
Cross-shareholding: Causes,
Effects, and Implications” by
H. Miyajima and F. Kuroki
Hiroshi Osano
(Kyoto University)

Summary of the Paper

- Purpose of this paper

- 1) The first objective is to discuss why cross-shareholding began to dissipate when the takeover threat was much more serious than it had been in the 1980s, and what attributes of firms determine the extent of cross-shareholdings.

- 2) The second objective is to shed light on the effect of the change of ownership structure on firms' performance.

- Results of this paper

- 1) The factor that directly led to the termination of many cross-shareholding relationship was the banking crisis.
- 2) The unwinding of cross-shareholding has not proceeded uniformly among Japanese firms.
- 3) Cross-shareholding was maintained for low profit firms with difficulty accessing capital markets and low foreign ownership.

- 4) The existence of stable shareholders allowed for significant insider control by separating managers from external pressures for most of the 1990s.

- 5) Maintaining stable shareholding causes problems not only of corporate and bank portfolios, but also of the efficiency of the economic system.

Comment on the Paper

- Did the takeover really threaten Japanese firms in their sampling period (1995 March~2002 March) or at least in the latter half of 1990's?

Japanese firms were busy in restructuring their business or improving their financial conditions. As a result, they did not intend to take over the other firms.

Foreigners were more interested in taking over firms in foreign countries because Japan faced a financial crisis.

► In this sense, the result of Miyajima and Kuroki that the factor that directly led to the termination of many cross-shareholding relationship was the banking crisis is not surprising.

- Indeed, the takeover have become a real threat to Japanese firms since the sampling period (1995 March~2002 March) ended.

After the sampling period, some Japanese firms finished in restructuring their business or improving their financial conditions. As a result, they may have an intension to take over the other firms.

Foreigners are now more interested in taking over Japanese firms because the financial instability in Japan has been mitigated.

► In this sense, the question of why cross-shareholding began to dissipate when the takeover threat was much more serious is to be investigated after the sampling period data.

- Does the debt-equity swap strengthen the estimation result on the behavior of main banks that their holding ratio in a corporation in crisis is maintained?

- Problem of the testing method

If CSELL_{ij} (corporation's decision to sell off bank shares) and BSELL_{ij} (bank's corporate share selling behavior) are influence each other, the instrumental variable method should be used.