Discussion of: Harada, K., 2005, “Did Efficiency Improve? Megamergers in the Japanese Banking Sector”

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Summary

- Analyzes the efficiency implications of large megamergers among Japanese banks
  - 5 events between 2001 and 2002
- Efficiency measured using data envelope analysis (nonparametric frontier approach)
  - Calculated between 1998 and 2002 for all banks involved in mergers
- Conclusions:
  - consolidation does not appear to improve efficiency

Simple suggestions: empirical work

- Run a regression of efficiency measures on merger dummy
  - What are the trends? Are they statistically and economically significant?
- Analyze later years
  - Last efficiency measures calculated in 2002
  - Not enough time after merger to tell efficiency implications
- Probit of M&A transaction on efficiency score
  - Are "inefficient" banks more likely to merge
- Clarify what "strong" or "healthy" and "weak" means
  - At what point is a bank considered efficient?
- Complement efficiency analysis by also looking at performance
  - Not clear how bad mergers were, since nonperforming loans decreased
  - How can these results be reconciled?

Less simple suggestions

- Why restrict to *large* banks?
  - Little work on Japanese mergers → do a more comprehensive study looking at all bank mergers
- Why restrict to *banks*?
- Most importantly:
  - What is different about Japan?
    - Many studies on merger efficiency → important to highlight the contribution of this paper
  - What are the reasons for potential changes in efficiency?
  - Who gains from the merger?

Power struggles?

- Wulf (2001) documents that “target” CEOs in MOEs trade power for premium
  - Target CEOs get benefits at expense of target shareholders
- Similar things going on here?

Role of lifetime employment

- What happens to long-term employment practices following a merger?
  - Shleifer and Summers (1987): breach of trust argument
    - Takeovers allow shareholders to renege on contracts with employees ex post, against managers' will
    - Shareholder gains are redistributions from stakeholders to shareholders
  - Interesting to document whether or not this happens in Japan
  - Do shareholders gain at the expense of employees? Do employees gain at the expense of other stakeholders?