

# Shareholder activism in Japan Quiet vs. public activism

Waseda-RIETI Symposium  
Corporate Control and ESG under “New Capitalism”

November 10, 2022

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**Preliminary. Results may change.**

# Part 1: Background

## Changing Ownership Structure and Hedge Fund Activists

# Decline of insider ownership

FY End	1985	1990	2000	2010	2020	Change 1985~2020
Individuals	22%	20%	19%	20%	17%	-5%
Non-Financial Corps.	29%	30%	22%	21%	22%	-7%
Financial Corps	38%	39%	36%	25%	20%	-18%
Foreigners	7%	5%	19%	27%	29%	22%

- Corporate holdings (non-fin. and fin.)  
 FY end 1985: 67% => FY end 2020: **42%**
- Foreigners + individuals (“non-stable” shareholders)  
 FY end 1985: 29% => FY end 2020: **46%**

# History of activism in Japan 2000~

## [1<sup>st</sup> Decade = 2000s 1G activists]

Relentless, public and theatrical

- 2000 Murakami/MAC: Dawn of shareholder activism
- 2003 Steel Partners: Relentless activists vs. defensive/refusing target management
- 2007 TCI: Challenge against quasi-governmental utility company
- 2009: Global financial crisis and the retreat of activists

# History of activism in Japan 2000~

## **【2<sup>nd</sup> Decade = 2012~now 2G activists】**

Behind closed door, tactical and more accommodating?

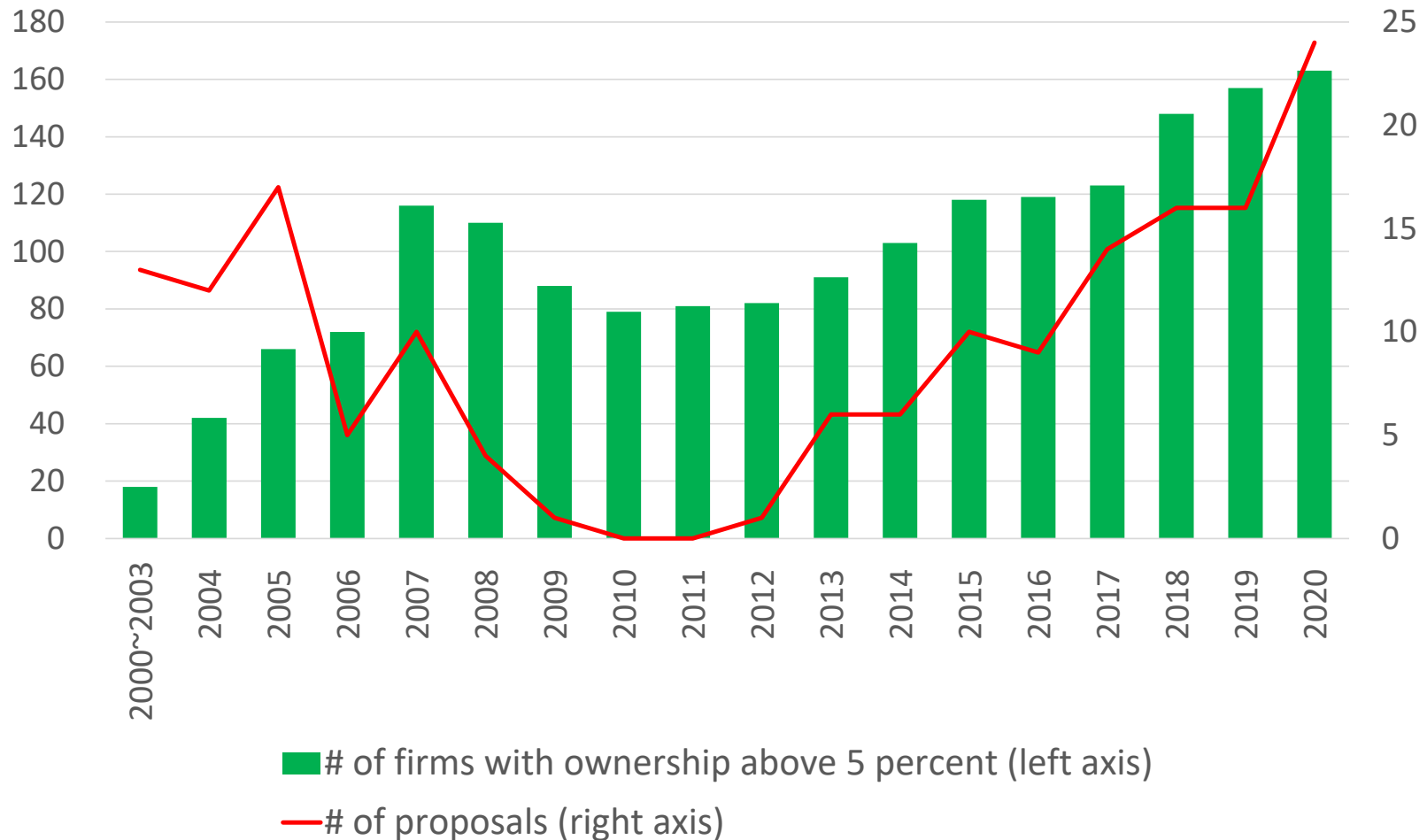
- 2013 Third Point vs. Sony, Effisimo: Comeback of activists
- 2014~15 CG/Stewardship Code: Increased activism
- More engagement from institutional investors
- 2019 Olympus accepting 2 external board members from ValueAct
- 2020~ Toshiba saga

# Facts on shareholder proposals of activist funds

- # of companies received shareholder proposal  
2020: **25**, 2021: **21**, 2022: **47**
- # of outcomes 2020~22:  
10 (8 voluntary change by mgmt., **11%**)
- Average approval rate of shareholder proposals  
2020~2022:  
Board **27%**, Payout **22%**,  
Asset sales **18%**, Abolish takeover defense: **30%**

# Activists are increasingly “active”

Activists' ownership above 5 percent vs. activists' proposals



# Public activism agenda by activists

Engagements				Agenda Items for Activists					
Start Year	No.	With at least one outcome	Success Rate	Board	Payout	Strategy/ asset sales	M&A/ Against -M&A	Abolish takeover defense	Others
2000	1	0	0.0%	0	1	0	0	0	0
2001	2	1	50.0%	2	2	1	0	0	0
2002	0	0		0	0	0	0	0	0
2003	10	4	40.0%	1	3	0	1	0	1
2004	13	3	23.1%	2	8	1	3	0	0
2005	15	8	53.3%	3	8	2	4	1	0
2006	5	0	0.0%	0	4	0	0	0	1
2007	11	3	27.3%	1	5	1	3	0	3
2008	4	2	50.0%	0	2	0	2	0	0
2009	1	0		0	1	0	0	0	0
2010	0	0		0	0	0	0	0	0
2011	0	0		0	0	0	0	0	0
2012	1	0	0.0%	0	1	0	0	0	0
2013	6	3	50.0%	3	1	1	1	0	0
2014	6	2	33.3%	1	4	0	1	1	0
2015	10	6	60.0%	3	8	5	1	0	0
2016	9	4	44.4%	0	8	3	0	0	0
2017	14	3	21.4%	5	8	4	1	1	4
2018	16	5	31.3%	8	11	5	1	2	1
2019	16	1	6.3%	5	8	2	0	2	1
2020	26	2	7.7%	15	13	7	0	1	10
2021	24	4	16.7%	8	12	6	3	1	10
<b>TOTAL</b>	<b>190</b>	<b>51</b>	<b>26.8%</b>	<b>55</b>	<b>108</b>	<b>38</b>	<b>21</b>	<b>9</b>	<b>31</b>



# Institutional investor spectrum

Concentration of Investment	Low (Diversified)	Mid (Selective)	High (Concentrated)
	Passive fund manager	Active fund manager	Hedgefund activist
# of invested companies	Thousands	Hundreds	Less than 20
Public shareholder proposal (Voice through public campaign)	No	Yes	Yes
Proxy voting (Voice through voting)	Yes	Yes	Yes
Non-public dialogue with invested firm (Engagement)	Partly yes	Partly yes	Yes
Selling invested firms (Exit)	No	Yes	Yes
# of firms managed by a fund manager	250 per fund mgr	20~30 per fund mgr	< 5 per fund mgr

# Part 2: Our Research Engagement by GO Japan vs. Public Activism by Activists

# Our research

1. To analyze the engagements conducted by Governance for Owners Japan (GO-Japan)
2. Comparison between engagement service (JEC) and active fund engagement (JEF): contents, target responses, outcomes, etc.
3. Comparison of returns from GO Japan engagement with that from public activism (CAR, BHAR, etc.)

# About GO Japan engagement

- GO Japan:  
JV 60% GO Inv. Partners, 40% Tokio Marine AM
- JEC/JSS (engagement service)  
Engagement service for institutional investors (**fixed fees**)  
Dialogue on behalf of asset owners  
39 firms engaged (total for 2009~2018)
- JEF (TMAM-GO Japan Engagement Fund)  
TMAM operates the fund and GO Japan provides advisory services as investment advisor (**performance-based fees**)  
21 firms engaged (total for 2012~2020)
- Closed-door engagement in both cases

# Summary of GO Japan engagements

JEC/JSS			Fund				
Year	Start	End	Outstanding balance	Year	Start	Exit	Outstanding balance
2009	10	0	10	2012	10	0	10
2010	7	0	17	2013	1	0	11
2011	2	0	19	2014	4	3	12
2012	1	0	20	2015	2	1	13
2013	3	3	20	2016	0	4	9
2014	3	1	22	2017	1	0	10
2015	3	4	21	2018	0	2	8
2016	5	4	22	2019	1	1	8
2017	2	3	21	2020	2	0	10
2018	3	3	21				
<b>Total</b>	<b>39</b>	<b>18</b>		<b>Total</b>	<b>21</b>	<b>11</b>	

\*Source: Becht, Franks, Miyajima and Suzuki (2021)

# Summary of GO Japan engagements

<b>JEC/JSS</b>	Mean	25%-tile	Median	75%-tile	Min	Max
Mkt cap. at start (in billion yen)	904.0	209.9	364.2	1,103.5	34.2	5,501.6
<b>JEF</b>	Mean	25%-tile	Median	75%-tile	Min	Max
Mkt cap. at start (in billion yen)	164.1	41.1	157.7	216.2	29.1	557.7
TOPIX top 20 percentile	Mean	25%-tile	Median	75%-tile	Min	Max
Mkt cap. in 2008 (in billion yen)	674.5	239.5	335.8	3,788.5	143.2	10,016.4
Mkt cap. in 2012 (in billion yen)	723.7	248.3	347.3	5,085.5	149.3	13,809.2
Mkt cap. in 2016 (in billion yen)	1,179.6	410.8	584.5	8,267.3	237.1	22,442.9

# Summary of GO Japan engagements

## JEC/JSS engagement agendas

Category	N	Outcome	Outcome Prob.
Asset Efficiency/Cash Balance/ Payout	29	20	69.0%
	18.6%		
Board	31	22	71.0%
	19.9%		
Disclosure Improvement	22	11	50.0%
	14.1%		
Environment / Social	8	1	12.5%
	5.1%		
Remuneration	6	2	33.3%
	3.8%		
Removal of Takeover Defense	11	4	36.4%
	7.1%		
Strategy	49	20	40.8%
	31.4%		
<b>Total</b>	<b>156</b>	<b>80</b>	<b>51.3%</b>

## JEF engagement agendas

Category	N	Outcome	Outcome Prob.
Asset Efficiency/Cash Balance/ Payout	32	17	53.1%
	25.8%		
Board	17	12	70.6%
	13.7%		
Disclosure Improvement	14	6	42.9%
	11.3%		
Liquidity improvement/ listing change	8	3	37.5%
	6.5%		
Removal of Takeover Defense	4	3	75.0%
	3.2%		
Strategy	49	14	28.6%
	39.5%		
<b>Total</b>	<b>124</b>	<b>55</b>	<b>44.4%</b>

# Summary of GO Japan engagements

## JEF engagement counterparts

Level of counterpart	CEO/ President	External Board	Senior Mgmt	Middle Mgmt	Junior Staff	Outsiders/ Competitors	Total Meetings
All Invested Firms	129	17	232	137	10	16	541
(% of total meetings)	23.8%	3.1%	42.9%	25.3%	1.8%	3.0%	100.0%
Average per Firm	6.1	0.8	11.0	6.5	0.5	0.8	25.8
Median per Firm	2	1	11	2	0	0	
Min per Firm	0	0	1	0	0	0	
Max per Firm	32	2	26	23	7	10	



# Summary of GO Japan engagements

## JEC/JSS: CAR at outcome announcement

CAR Period	Aggregate CARs (n=32)	Asset/Cash/Payout (n=20)	Board (n=22)	Strategy (n=20)	Defense removal (n=4)
[-5~+5]	6.47%**	1.23%	4.94%**	2.97%*	8.29%
[-1~+1]	2.65%*	2.62%	1.13%	0.78%	4.35%*

## JEF: CAR at outcome announcement

CAR Period	Aggregate CARs (n=17)	Asset/Cash/Payout (n=15)	Board (n=11)	Strategy (n=7)	Defense removal (n=3)
[-5~+5]	4.13%	4.55%	0.10%	3.82%	-9.62%
[-1~+1]	9.40%***	6.16%*	3.31%	2.67%	-2.38%

# Summary of GO Japan engagements

## JEC/JSS BHAR (equally weighted over 9 years)

Outcome	BHAR			
	Mean	t-stats	Median	p-value
With outcome (n=30)	20.5%	0.76	-15.7%	20.1%
Without outcome (n=6)	24.8%	1.23	27.3%	21.9%
All (n=36)	21.2%	0.83	-8.7%	61.7%

## JEF BHAR (equally weighted over 8 years)

	BHAR			
	Mean	t-stats	Median	p-value
All (n=21)	61.6%	5.24***	52.7%	0.0%

# Benchmark: BHAR of public activism

[BHAR over TOPIX throughout holding period]

Report submission  
to the end, for sample  
with outcome (n=30)

Report submission  
to the end, for sample  
without outcome (n=51)

	Report submission to the end, for sample with outcome (n=30)			Report submission to the end, for sample without outcome (n=51)		
Mean	23.66%	<b>1.91*</b>		15.37%	<b>2.15**</b>	
Median	7.05%	1.42	(Wilcoxon)	4.46%	<b>1.70*</b>	(Wilcoxon)

# Outcome of JEF engagement

- Board: Outcome 12/17 (71%)
- Payout: Outcome 17/32 (53%)
- Strategy: Outcome 14/49 (29%)
- Removal of takeover defense: Outcome 3/4 (75%)
- Liquidity/listing: Outcome 3/8 (38%)
- Generally comparable outcome (success) rate as JEC (41% vs. 51%)
- Higher success rate than the public activists' shareholder proposal campaign
- CAR [-1,+1] around outcome larger than JEC (9.4% vs. 2.7%), but CAR [-5, +5] lower.
- BHAR much higher than JEC (61.6% vs. 21.2%)

# Public activism and outcome/CARs

[Source]

Activist shareholding/activism data compiled from newspaper data sources, EDINET (government database) and other data sources.

[Period]

Activist cases: 2001~2020 Dec.: 230 target firms recorded

# Summary of GO Japan engagements

## JEC/JSS engagement agendas

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# GOJ engagement vs. activism

## [Outcome rate]

□ JEF: 44%, JEC: 51%  
Public activism: 27%

□ Possible reasons for the difference

(1) Quiet dialogue leads to more open discussion and acceptance of the agenda

(2) Activists may engage quietly before the public activism (under-estimation of the outcome rate)

(3) GO Japan may choose better agenda for a target company and engage in longer-term perspectives

# CAR around outcome announcement

CAR Period	JEF (n=17)	JEC/JSS (n=34)	Activists (n=47)
[-5~+5]	4.13%	6.47%**	7.44%***
[-1~+1]	9.4%***	2.65%*	4.85%***

\* The first figure in each cell reports the cumulative abnormal returns (CAR) over the period, and the second figure in brackets reports t-statistics, where “\*” and “\*\*\*” showing that the statistics is significant at 5% and 1% level, respectively.

Source: Becht, Franks, Miyajima and Suzuki (2019)

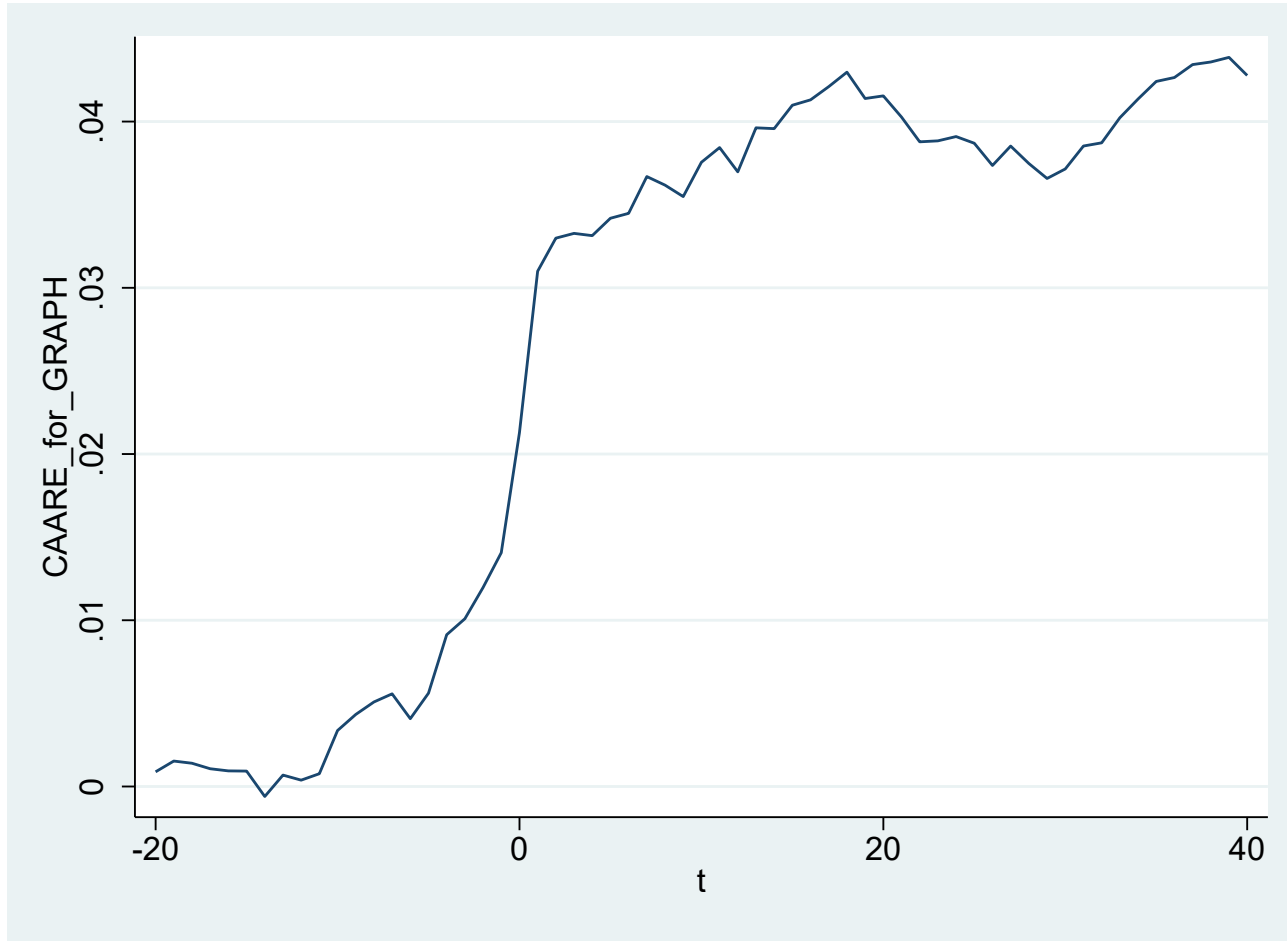


# CAR around outcome announcement

## [CAR/BHAR]

- JEF experiences larger mean CAR around announcement of outcome (9% for CAR[-1~+1]), but several cases experience large negative CAR prior to the outcome announcement
- There are additional CAR of +3.5% for public activists when they submit “tairyō-hoyū (large holdings)” statement.
- BHARs are much higher for JEF (average 62%) than that of JEC (avg. 21%) and public activism (avg. 19%).

# Submission of statement and CAR



# Conclusion

- On average, GO Japan's quiet (not public) engagements work well.
  - Outcome (success) rate for agendas higher (around 50%) than that of public activism (27%).
  - CARs at outcome announcement are comparable between public and GO Japan activism.
  - BHARs are much higher for JEF (average 62%) than that of JEC (avg. 21%) and public activism (avg. 19%).  
\*BHARs can be higher if we reflect the timing of entry or exit.
- => Quiet engagement can work as well or better than public activism.