Business Restructuring and Corporate Governance: Evidence from survey data

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Abstract

Utilizing a unique questionnaire survey, we investigate difficulties in actual exit and organizational weaknesses in dealing with exit. Less profitable companies are more likely to answer that they have difficulties in making decisions related to downsizing and exit due to a lack of criteria. The higher the foreign investor ownership ratio and the higher the leverage, the less likely that firms answer that the internal procedures for deciding divestment lack clarity. Market-to-book ratio and the presence of a labor union increase problems associated with coordination with employees and with succession of employment after a sale. Interestingly, cash holdings per lifetime employee alleviate the labor problem concerning divestment. In terms of organization, small firms, high valuable firms, and cash rich firms are less likely to have criteria for evaluating divestment. Executive ownership significantly increases the likelihood of criteria but increasing size of board of directors decreases the existence of criteria. Likewise, small firms, high valuable firms, and cash rich firms tend not to have a process for evaluating divestment. Firms with high executive ownership or high foreign investors' ownership are more likely to have procedures in place for evaluating downsizing and exit in response to such proposals. The effect of outside directors on the criteria and process for exit decision making as well as on issues involved in actual exit is insignificant.

1.Introduction

Deregulation, technological innovation, and the entry of emerging economies contribute to excess capacity. Faced with the required exit, managers and employees generally resist downsizing and exit until the onset of distress. Zombie firm phenomenon clearly demonstrates the difficulty of exit for banks and industrial firms worldwide. Non-performing loans are the consequences of overcapacity in the banking industry due to financial deregulation on corporate bond market in the 1980s. Bankers may excuse that they did not recognize overcapacity issue attributed to the deregulation, but banks must deal with nonperforming loans in the middle 1990s. Rather than facing the problem, banker extended loans to zombie firms to evergreen bank balance sheets In the late 1990s, the government reluctantly implemented policy measures in response to bank failures. Consequently, several banks are nationalized and failed banks were acquired by private equity funds or other healthy banks. Later, a wave of M&As in financial sector eliminated excess capacity in banking industry.

Not only over capacity in the banking industry, but excess capacity in personal computer business also arose in the early 1990s, as the world has been experiencing rapid technology changes (Saruyama and Xu, 2021). In the 1980s, Compaq, Gateway, and Dell, entered the market and quickly grabbed market shares from existing leading PC vendors that had enjoyed rapid growth, dominant market position, and high cash flow. Lenovo, a Chinese PC vendor acquired IBM's PC division in 2005, established a joint company with NEC in 2011, and took 51% stake of Fujitsu's P C business in 2016. Pressured by an active investment fund Third Point, SONY sold its personal computer division in 2014. Financially distressed Toshiba sold 81% stake in 2018 of its PC business and the rest of 19% was acquired in 2020. The above situations illustrate vividly decadelong delays in exit.

Music player and smart phone businesses are not except. Since 2001, Apple has been successively launching iPod, iPad and iPhone. Apple's products have been dominating the world markets and storied SONY is replaced by Apple. Also, home appliance manufacturing has also shifted to South Korena and China. After making huge losses in TV business, SONY conducted massive layoff and downsizing in its electronic products unit and has achieved concentration in core competence. However, quite a few declining electronics companies such as Toshiba are still struggling.

After exits from PC, smart phone, and house appliance businesses, vertically integrated semiconductor businesses lost the sales channel to parent companies. Led by the government, there were repeated M&As of a hodgepodge of semiconductor divisions to preserve so called advanced Japanese technology. However, the new companies, Elpida Memory and Renesas Electronics soon run into troubles for post M&A excess employment. Elpida went bankrupt and then acquired by Micron. Renesas was acquired by a government-affiliated investment fund and a coalition of major customers and thereafter it laid off 60% of its redundant workforce. Likewise, the share in the global LCD market was 70% in 1998, but only five years later, while South Korea ranked top. JDI, the inopportune and easy collection of loss-making LCD divisions in 2012 led by the government owned fund run into financial distress and was acquired in 2020 by a foreign investment fund. At last, Panasonic liquidated its loss making LCD subsidiary in 2023.

Excess capacity implies excess employment. Over three decades, early voluntary retirement programs have been repeated by paying premium retirement allowances to lifetime employees. Even implementing an early voluntary retirement program needs the consensus of the labor union. This is because the labor law provides powerful labor protections. According to past labor law precedents, four requirements must be met for dismissal. First, there is need for personnel reduction -i.e., the onset of distress or filing for reorganization. Next, managers must fulfill obligations to devote efforts to avoid dismissal such as recruiting voluntary early retirement. Also, criteria for selecting personnel for dismissal shall be reasonable and fair. Additionally, manages must devote efforts to fully negotiate with each employee subject to dismissal and the labor union, and to obtain their consent for the dismissal. Similarly, cutback on wage rate needs the agreement of employees and labor unions. Recruiting voluntary early retirement employees is quite costly, and the legal resolution of dismissal dispute is very time consuming. It took four years for the Japan Airline to win the Tokyo High Court judgement and the subsequent confirmation of the Supreme Court to approve the dismissal due to corporate reorganization.

In the high growth era, occasionally a firm recruited early voluntary retirement employees after suffering loss for three consecutive years in response to a contemporary shock. As excess capacity

arising in most industries, such lifetime employee primacy contains obstacles. Firstly, the lifetime employees own no equity of a firm, though they are virtually residual claimants. This means that balance sheets and income statements are not informative to recognize shareholder interests because the stakeholder theory does not provide any appropriate accounting standards to distinguish employee interests and shareholder interests. Especially, projected retirement benefit obligations do not include potential premium early retirement benefits after a shortfall of performance and thus managers are more likely to pay retained earnings to lifetime employees when implementing early voluntary retirement programs.

Another obstacle is that there are no daily signal of employee value. This leaves the manager no criterion to resolve the conflicts between shareholders and employees and the conflicts between employees in a firm in decline. As consequence, without any criteria managers can run companies in own interests—taking advantages of stock market[1], enjoying quiet life of inaction in response to excess capacity. The practice of early voluntary retirement program implies that managers spend free cash to buy labor peace for the quiet life. Without enough cash, it would be difficult to obtain consensus of employees and labor unions to cut back on excess employment. As the economy prolongs stagnation, the labor protection became problematic, but the resolution has not yet been worked out. A monetary settlement system that terminates the labor contract by compensation the employees subject to dismissal without meeting the above four requirements was proposed twice by the authority, in 2002 and 2005, but both times it failed due to opposition from workers.

Though there is no prospect to reform the labor laws jurisprudence, the commercial law and the corporate law have been frequently revised to allow stock repurchases and granting stock option (Kato, 2004). Also, ownership structure rapidly changed (Franks, Mayer and Miyajima,2014). Financial institutional ownership declined, and instead foreign investors' ownership increased. Failed banks and

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[1] After the middle 1970s, rights offerings declined and seasoned equity offerings at market price increased. Subsequently, there was a massive equity financing as stock prices rapidly soared in the 1980s. The rocket sky high stock price was nothing more than an assumption of the stock market, however. Though earnings increased much, most were retained. The stock price burst in 1990 can be viewed as the outcome of the massive equity financing with weak governance. Later, retained earnings were paid as premium early retirement benefits repeatedly.

distressed firms were acquired by cross border investment funds. Quite a few firms with rich cash but poor shareholder value are right for active investors' targets. In the early 2000s, a U.S. active investor began to target such somewhat profitable firms and required for changes. In response to shareholder activism, quite the targeted firms increased dividends and stock repurchases. Some of the targeted firms chose confrontation and potential targets rushed for adopting antitakeover measures such as poison pills. Falsely like US poison pills adopted by the board of directors, the ultimate antitakeover measure underlying a poison pill approved by the shareholder meeting is inter-locking shareholding. Facing confrontation, the active investors hosted several hostile takeovers. Unfortunately, the cross border activism ended up with strengthened interlocking shareholdings and an opportunity is lost to activate the capital market that help pressure companies in decline to downsize and exit.

Since 2014, a series of additional corporate governance reforms have been launched including the Stewardship Code and the Corporate Governance Code. Also, the managers are required to reduce cross-shareholdings or to explain the cross-shareholdings policy. The Corporate Governance Code mainly focuses on internal governance systems, especially appointment of outside directors. The ratio of outside directors was immediately soaring, but insiders still dominate on board. The size of board has decreased but is not yet small enough. Interlocking shareholdings remain, though disclosure is strengthened. The corporate governance reforms encourage the conversation between shareholders and managers, and this partially helps activist investors to come back. Activist investors' demand for share buybacks and spinoffs that would prevent such firms from generating waste, as Third Point has been doing. Active investors target somewhat profitable companies with rich cash but poor shareholder value, whereas managers do not take any actions until three consecutive years of losses.

Despite increases in shareholder activism, 58% of companies listed in the prime market of Tokyo Stock Exchange had a PBR below one, in comparison with 5% of S&P 500 with PBR below one, at the end of 2022. This also proves exit over three decades is so difficult for firms to deal with. PBR below one implies negative NPV of ongoing projects and such firms ought to downsize. In other words, evaluating divestment is an important issue of corporate governance. In this paper, we utilize a unique survey on difficulties of exit that firms face and organizational practices concerning divestment

decision making. This survey is different from previous surveys on capital budgeting. Capital budgeting is a process that firms use to evaluate new projects or investment. Graham and Havey (2001) show most firms use present value techniques to evaluate new projects. However, we know little about how organizations in decline evaluate ongoing projects to make downsizing and divestment decisions.

Linking actual difficulties of exit to evolving corporate governance, we find that unionized firms are more like to face the difficulty to obtain consensus from employees and labor unions. On the other hand, the difficulty is eased if a firm has more cash holding per lifetime employee. Likewise, unionized firms are more likely to answer that it is difficult to seek a suitable acquirer conditional on succeeding employment contracts, whereas cash holding per lifetime employee eases the problem. These finding strongly suggest that managers tend to spend free cash to buy labor peace for the quiet life. This might be the good reason why active investors demand for increases of dividends and share repurchases. In literature of corporate finance, cash guards against future cash flow shocks in bad times (Lins et al., 2010). Our evidence suggests that cash enables managers to buy labor peace in future bad times. In Bertrand and Mullainathan (2003), isolated managers are more likely to pay high wages to buy peace with their workers.

Most firms have a process to evaluate new projects. Our results are surprising. Only a small number of firms have a process to evaluate ongoing projects. Exit is difficult for organizations to deal with, and many firms in decline face difficulty to make exit decisions due to lack of process. We shed new light on the asymmetry of corporate growth and decline addressed in Jensen (1993). Strengthening managerial incentives, shrinkage of the size of board of directors, assuring foreign investors' monitoring enhance organizational effectiveness to deal with exit. But increases in outsider directors seem have no significant effect.

Our evidence has important policy implications for future corporate governance reforms. Firstly, buying temporary labor peace cannot take the quiet life back but only falls to the hell of endless early voluntary retirement recruitment. Recently, offering early retirement recruitment programs of profitable companies aiming to re-grow has been increasing. The stock market favorably reacts to such timely employment adjustment. Moreover, promptly recruiting early voluntary retirement with

generous training for reallocation and re-employment support offers more voluntary retirement benefits to employees at a good time, rather than adjusting employment during recessions for industry-wide or economy-wide excess capacity. It would be more helpful for senior employees to find new jobs in high-growth industries or start their own businesses. In other words, stockholders and employees are happier if managers are divisive to timely recruit early retirement recruitment before falling into two consecutive years of loss. This new criterion gives managers a decision rule for making tradeoffs among conflicting shareholders and employees. Paying cash to voluntary retirees timely increases the firm value and employee interests. Conventional employment adjustment after two or three consecutive years of loss is neither accountable to stockholder nor accountable to employees. Our evidence suggests that increasing equity ownership by managers might be the first step to adopt a process evaluating excess capacity thus excess employment.

Secondly, foreign investors, especially active foreign investor perform an active role in corporate strategic redirections. It has been proven that confrontation against active investors does not enhance firm value. Rather, dozens of wise managers with a large stake in their firms have achieved substantial changes via management buyouts, collaborating with foreign private equity funds. Domestic institutional shareholders have been voting against corporate proposals to adopt poison pills and collaborations in proxy contests of institutional shareholders and active investors are increasing. Several firms have appointed large active investors as directors. More recently, the Ministry of Economy, Trade and Industry is launching a new guideline for takeovers that requires the manager to promptly bring a received takeover bid to the board of directors for discussion.

The paper is organized as follows. In section 2, we review the literature. In Section 3, we describe the data. we study capital budgeting. We analyze the difficulty of exit that firms face in Section 4. In Section 5, we examine processes of evaluating excess capacity. We offer some conclusions in the final section.

2. Litereture review

Our study is related to theoretical and empirical studies on agency costs. Jensen and Meckling

(1976) provide a theoretical model on conflicts of outside shareholders and the manager. Later, Jensen (1986a) shows evidence of large positive cash flow often invested in firm value destroying capacity expansion despite the requirement of exit. This is called the agency costs of free cash flow. Rajan, Servaes, and Zingales（2000）provided a theory and empirical evidence that expropriation among divisions may lead to defensive but inefficient investments to protect the division benefit and thus the CEO may transfer resources to the most inefficient division to motivate division managers to invest efficiently when diversity in resources and opportunities increases. Scharfstein and Stein (2000）developed a two-tiered agency model in which weaker divisions get subsidized by stronger ones due to the rent-seeking behavior of division managers. According to the diversification discount hypothesis, the internal capital market misallocates cash flow to inefficient segments. Ushijima (2016) find organizational inefficiency concerning diversification discount.

Excess capacity often means excess employment. Facing excess employment, managers are prone to spend free cash to buy labor peace with their workers rather than downsize timely (Jensen, 1993). It is well known that firms implement early voluntary retirement programs after two consecutive year losses (Noda and Hirano, 2013). Because of the superior performance of the Japanese economy in the 1980s, it was argued that Japanese firms benefited from long term relationship with long term investors (Shleifer and Vishny, 1997). The underlying debate is based on the fallacy of employee primacy theory or stakeholder theory. Outside shareholders frequently trade shares compared to interlocking shareholders. Thus, it is easily and lightly somehow believed that outsider shareholders are short-term investors, whereas interlocking shareholders are long-term investors. Especially, the lifetime employees work for the same company till retirement, and they are long-term stakeholders for their lifetime firm-specific human capital investment. Conventionally, the directors were the most successful life-time employees, and the CEO is the top winner (Xu, 1996). The CEO earned the highest salary as the prize of tournament competition with employee peers.

Supposedly, directors were elected by shareholders, but the shareholders' meeting was dominated by the interlocking shareholders－banks, insurance companies, corporate suppliers and customers.

Such large shareholders themselves are corporations. A large corporate shareholder is nothing no more than a dummy controlled by its manager with little managerial ownership. Bank interventions after the onset of distress were to maintain interlocking shareholdings rather than alternatives of takeover or large shareholders' monitoring. This is because the interlocking shareholders of a listed firm in distress fears the acquisition by an outsider investor after going bankrupt. In other words, interlocking shareholders are too soft unless a firm is near to distress. The focal point for being far from distress was the listing criteria of the Tokyo Stock Exchange that required listed firms to pay dividends of 10% stock par value. All stocks were par-value shares as required by the commercial law. Till the middles 1970s, most equity financings were rights offerings. This strongly suggests that conventionally outsider shareholders were not residual claimants but holders of preferred stocks.

As Japanese economy has been stagnating after the late 1990s, Jensen (2000) argues the massive restructuring in the 1980s was making USA strong and laid the foundation of the late 1990 booming economy. Indeed, the Japanese practice demonstrates vividly that banks and firms with substantial excess capacity avoided downsizing and exit from loss making businesses for over three decades. The main bank system seemed long term oriented, but it is totally nonfunctioning when banks themselves and quite borrowing firms are faced with excess capacity. Several reasons are responsible for dysfunctional conventional corporate governance system. Mainly, cross shareholdings among banks and industrial firms isolate banks and firms from capital market pressures. Second, banks themselves are corporations with their own agency problems because generally bankers have poor incentives to maximize bank value. As consequence, banks have no incentive to discipline managers as real large shareholders, and some incentive to extend loans to them to get more low risk business, unless the firm is not able to pay interests. Zombie lending is even worse than agency problems. Banks have unexpected perverse incentives to evergreen nonperforming loans (Peek and Rosengren,2006; Caballero, Hoshi and Kashyap, 2008). An underlying cause of zombie firms is decadelong delays in exit due to the lack of the market for corporate control and the failure of internal control system.

Also, the powerful employment protection makes it costlier for firms to divest or scale back poorly performing projects, resulting in asymmetry of investment and divestment. Simintzi, Vig, and

Volpin (2015), Serfling (2016) show that greater employment protection makes labor costs more fixed in nature and lowers financial leverage. Dessaint, Golubov, and Volpin (2017) show evidence that increases in employment protection impede layoffs, resulting in wage costs that reduce synergy gains of takeovers. They show that the mergers and acquisitions (M&A) volume scaled by GDP in Japan is the lowest among major OECD countries, though its OECD Employment Protection Legislation index is moderate. This suggests that Japanese corporations could pay more attention to employment protection than employment protection legislation requires, as showed in the above anecdotal example. In addition to employment protection legislation, it is more likely that the Japanese managers buy a short time labor peace between management and labor, as did US managers in the 1980s. Interestingly, domestic companies have been acquiring overseas companies, while domestic companies acquired via takeovers remain rare.

Moreover, the powerful employment protection might lower investment of both physical capital and human capital. There is plenty empirical evidence on negative relation between investment irreversibility and investment activity in physical capital (Bernanke, 1983; Pindyck, 1991; Bertola and Caballero, 1994; Abel and Eberly, 1996; Abel et al., 1996). Greater employment protection potentially makes investments more irreversible and thus lowers investment activity. Greater employment protection makes it more difficult for firms in decline to reduce employment (Bai et al., 2018). Likewise, the irreversibility of human capital investment attributed to employment protection lowers investment activity in human capital. Additionally, it would be difficult for firms to offer high wages than seniority-based wage system to employ young talented lifetime employees to replace senior employees in poorly performing divisions. In sum, the powerful employment protection might be one of the main factors for the three lost decades. The labor laws and employment practices impede timely downsizing and exit, but the reforms of labor laws have failed. Today, workers are saying it would lead to easy restructuring, and employers are fearing that the settlement compensation would be too expensive. At this moment, there is no prospect to reform the labor laws jurisprudence.

The resolution of zombie problem is not the final answer to the requirement of exit, however. At the end of 2022, 58% of companies listed in the prime market of Tokyo Stock Exchange have a PBR

below one, in comparison with 5% of S&P 500. This strongly suggests that mechanisms are not yet invented to accomplish early changes in response to low corporate value. In other words, despite the corporate governance reforms the internal corporate control system is not yet effective to deal with low firm value. We need to figure out the differences in comparison with the US corporate governance. Equity ownership by top executives, monitoring by active shareholders, outside directors on the board, and the threat of external takeovers provide incentives for US corporate managers to maximize shareholder wealth.

The agency costs are caused by the failure of internal capital markets. In other words, the internal control system or the board of directors fails to efficiently make internal fund allocation decisions. In comparison, the market for corporate control through leveraged buyouts and hostile takeovers play a major role in quickly eliminating excess capacity and over diversification in the 1980 United States (Jensen, 1993; Shleifer and Vishny, 1997). More importantly, the 1980 U.S. experience suggests that organization changes such as sharp increases in leverage, concentrated equity ownership by managers and the board, shrinkage of boards to no more than eight, and strengthened sensitivity of managerial pay to performance are effective to eliminate excess capacity in low-growth or declining firms (Jensen, 1993). Such American experiences have been influencing corporate governance reforms.

Followed by the antitakeover legislation, and court decisions that restricted the market for corporate control, hostile takeovers rapidly decreased after the late 1980s. However, new mechanisms to quickly eliminate excess capacity by active investors such as recent hedge fund activism have been invented (Shleifer and Vishny, 1997). Activities by active investors are controversial. Changes pressured by the capital market are generally accomplished quickly by active investors—within two years for recent hedge fund activism. Active investor short termism has been criticized, though there is little empirical support. Though the adoption of poison pills (Milhaupt, 2005) should be approved by the shareholder meeting in Japan, it is flaunting inter-locking shareholdings to would-be active investors. Interlocking ownership structures are the strongest existing takeover defense measures around the world. It is still possible to take two or more years for an active investor to replace more than half members on a staggered board in the United States. Interlocking shareholdings, however,

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enable managers to all time defeat any unwelcome takeover bidders or active interventions. Adopting falsely similar poison pills is not in the shadow of Delaware corporate law but in the shadow of interlocking shareholding.

The 1980 convergence literatures in comparative corporate governance are not conclusive. The corporate governance has been evolving to adapt to the new economic environment of long term low growth. It provides an experiment to examine the effectiveness of corporate governance reform to deal with excess capacity. In this paper, we focus on the difficulty of exit and internal evaluating process for exit decision making. Our study is complementary to previous studies focusing on capital budgeting. It is well known that most firms use net present value method to evaluate investment or new project and decide to invest in new projects with positive net present value (Graham and Havey, 2001). However, having PBR below one means negative net present value of ongoing projects and thus divestures, downsizing and exit are required. We need to know whether firms have a process to evaluate divestment and what difficulties of exit that firms face. Our research sheds new light to theories and practice of corporate finance concerning divestment. We hope that researchers will use our results to develop new theories on capital budgeting of firms in decline. We also hope that practitioners of firms in low growth will learn lessons from our analysis by working out a process to evaluate divestment.

3. Data

3.1. Survey data

We utilize the survey data on corporate governance conducted by the Mistry of the Ministry of Economy, Trade and Industry in 2018. Different from previous surveys, this survey asks what issues firms face when withdrawing from or selling some businesses.　Financial companies and firms without available financial data are excluded. The sample consists of 696 listed companies.

40.9% of firms feel difficult to decide divestment due to unclear criteria and 26.7% answer that the internal process for considering withdrawal/sale is not clear, making it difficult to proceed with consideration. Fig.1 also indicates that 12.9% of firms say it is difficult to find a suitable seller in terms

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of selling price, 12.1% have difficulties to coordinate with employees and labor unions, and, 6.0% face difficulty to seek a suitable buyer for divestment conditional of succession of incumbent division employment.

Consistent with frequent answers on difficulty of exit due to no criteria, it is not surprising that 73.1% of firms answer that they do not have any internal criteria for evaluating divestment in Fig.2. Only 17.2% of firms use quantitative criteria. Additionally, 5.6% of firms use qualitative criteria. For internal procedures to evaluate divestment, Fig.3 indicates only 16.9% of firms are organizationally capable to deal with excess capacity issues. Such firms have a department in charge of evaluating whether the criteria are met and subsequent procedures for further withdrawal/sale decisions if the criteria are met. In another 20.8% of firms, a procedure will be proceeded upon proposals. The remaining 60.3% of firms answer that they have no specific procedures. In sum, the majority of firms are not organizationally effective to deal with divestment.

3.2. Summary statistics

In this paper, we link the organization obstacles to evolving internal control system such as leverage, ownership structure, labor unions, managerial incentives, and board compositions. Table 1 presents summary information about the firms in our sample. Financial data is from NIKKEI Financial Quest, and we use stock price data of Financial Solutions. We obtain data on life-time employees from the Basic Survey of Japanese Business Structure and Activities (METI).

The median PBR is 1.09 and 44.8% of firms have PBR below one. The variable lowPBR takes value of one if PBR is below one, otherwise value of 0. This implies that many firms are in low growth or declining. As mentioned above, about 50% of firms listed in the prime market of Tokyo Stock Exchange have PBR below one. Low PBR phenomenon has been lasting over three decades. Nonetheless, many firms in long term low growth are not yet ready to change. The median oforeign (foreign investor ownership) is 16.0%. The median leverage (debt/assets) is 46.6% and the median rcash (cash/assets) is 13.8%. The net debt ratio (leverage – rcash) is 13.8%. The median cashempl (cash holding per lifetime employee) is about 14 million yen. Though outside directors have been

increasing since 2015, the median share of outside directors (r o.d.) is 27.8% and 48.3% of firms have 3 or more outside directors. The median board size is 9. The median managerial ownership is only 0.4%.

4. Difficulties of exit

4.1. Lack of internal criteria

Our first analysis is to determine what difficulties of exit firms face. The dependent variable takes the value one if a firm respond that it is difficult to decide divestment for lack of criteria and otherwise takes the value zero in logit regressions in Table 2. Industry dummies are controlled in all logit regressions. The results indicates that the variable ebit (income before tax, interest payment and depreciation/assets) has a significant negative coefficient. This suggests that profitable firms are less likely to divest and thus tend not to answer that they face the difficulty to decide exit for lack of criteria. Less profitable firms are more likely to answer that they are facing the difficulty to evaluate divest because of lack of internal criteria. In other words, for lack of internal criteria it is difficult for firms in decline to deal with exit. However, net debt ratio ((debt– cash)/assets) is negatively related to the likelihood to answer that a firm facing the difficulty to evaluate divestment due to lack of internal criteria. It is not surprising that firms heavily relying on debt have criteria to divest in order to avoid default on debt. No significant effects of PBR or the PBR below one dummy suggests that firms in low growth are not yet ready to downsize or to exit. Neither ownership structure nor board compositions have significant effect.

4.2. Lack of internal procedure

In Table 3, the dependent variable takes the value one if a firm respond that it is difficult to decide divestment for lack of procedures and otherwise takes the value zero. Foreign investors' ownership and leverage are significantly related to the lack of internal process for considering withdrawal/sale. Our results suggests that when pressed by foreign investors or debt, firms passively start thinking about downsizing and exit. In other words, low valuable companies, less profitable companies do not

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take the initiative to exit unless they are pressed.

4.3. Difficulty to seek acquisition at a good price

Due to lack of criteria and process to decide downsizing and exit, firms take no actions until falling into distress. Loss making stores, inefficient plants or declining businesses are less attractive and it is difficult to sell them at a good price. Indeed, firms with poor profitability are more likely to face difficulty to seek acquisition at a good price, as Table 4 exhibits. Again, this suggest that it is too late to spinoff declining businesses due to industry-wide excess capacity.

4.4. Difficulty to obtain consensus of employees and labor unions

Eliminating excess capacity includes cutback on personnel. Implicit practice of lifetime employment could cause organizational failure to downsize and exit promptly. Firms of low PBR are more likely to face difficulties to obtain consensus of employees and labor unions about downsizing and exit. Even a manager recognizes the requirement of exit, employees and labor unions resist. It is not surprising that a unionized firm are more likely to answer that it has the difficulties of obtain consensus of employees and labor unions. Jensen (1993) argues that the unionized dominant US firms cannot adjust fast enough in response to technical innovation and worldwide competition. In Japan it is extremely difficult to adjust employment because lifetime workers are promised jobs for life. Moreover, the labor laws provide powerful labor protection.

Conventionally, firms reduce personnel by curbing new graduate recruitment in response to declining profitability. It is so called "natural attrition". When the performance getting worse despite natural attribution, a firm implements early voluntary retirement programs to reduce more personnel after two consecutive years of losses. This is the social norm for employment adjustment. Managers spend some cash to pay premiums to early voluntary retirees in addition to mandatory retirement money or severance pay. Consistently, Table 5 shows that cash per lifetime employee significantly reduce labor problems that firms face in downsizing and exit. In previous studies, isolated managers pay high wages to buy labor peace with their workers. We provide new evidence that managers buy

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labor peace with their leaving workers in downsizing and exit.

The rule of implementing early voluntary retirement programs after two consecutive years of losses might be effective to protect employee interests in the high growth era. However, faced with persistent industry-wide overcapacity, a company must downsize timely and drastically. Continuing with endless easy recruiting early voluntary retirees, the manager would only use up cash and the decrease in cash would increase the difficulty of employment adjustment. It is neither helpful for employees nor beneficial for shareholders. This situation cannot be resolved unless drastic downsizing, rather than stopgap measures. In short, losing money for two consecutive years is not an early warning to motivate effective adjustments to the excess capacity at the interests of employees but a sign of a near future crisis.

Passively following the above rule of two consecutive years of losses is evidence of agency costs because the manager enjoys the quiet life by buying labor peace at expense of residual claims in response to industry-wide excess capacity. In a firm in high growth, the conflicts between the interests of shareholders and employees are not severe. After falling into decline, the manager is prone to pay free cash to workers to buy labor peace thus the quiet life at the sacrifice of the interests of shareholders. If a somewhat firm has to lay off workers, the CEO needs to devote a great effort to convincing the employees and the labor unions to launch an early voluntary retirement program. It is well known that during the Toyota Motor Corporation labor dispute in 1950, President Kiichiro Toyoda and the two executives resigned, taking the blame for layoffs.[2] Thus, the CEO chooses continuing with endless early voluntary retirement program implementation until cash drying up, rather than risking the job.

4.5. Difficulty for CEO to decide

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[2] Labor Disputes and Resignation of President Kiichiro in Section 6: Postwar Business Reorganization and Labor Disputes, 75 Years of Toyota History (in Japanese), https://www.toyota.co.jp/jpn/company/history/75years/text/taking_on_the_automotive_business/chapter2/section6/item6_d.html ,2021/01/28.

Due to low equity ownership by top executives, the manager enjoys the quiet life rather than risk the job to decide downsizing and exit. Executive ownership has a negative sign, but the coefficient lacks significance. COEs of small firms are less likely to make decisions. Interestingly, it is difficult for a CEO to make decisions to downsize when three or more outside directors sit on the board. Board size and board independence are not significant. It is difficult for CEOs to make downsizing decisions irrespective of profitability and stock price, as showed in Table 6.

4.6. Difficulty to assure succession of employment

The labor laws also impose constraints on layoffs around M&A that plays important roles to eliminate overlapping capacity. A company transferring a business must obtain individual consent from each worker whose existing labor contracts will be specially succeeded by the acquiring company. It is important to keep in mind that a worker to be succeeded cannot be dismissed solely because she/he has not accepted the succession of her/his labor contract. Thus, pre-M&A labor contracts should be comprehensively succeeded by the acquirer. Regarding company splits, the Labor Contract Succession Law provides that the labor contracts of workers mainly engaged in a divested business will naturally be succeeded to the newly established company or the absorbing company. Unlike transfer of business, no worker consent is required, but the succession of the labor contracts of the relevant workers should be stipulated in the split plan (contract) as the rights and obligations to be succeeded.

In sum, splits or sales of businesses are conditional on succession of lifetime labor contracts. Even when acquiring a bankrupt firm, the succession of employment is required. At the press conference on the completion of acquisition of all shares of Elpida Memory on July 31, 2013, the former President Sakamoto said, "The common understanding of Micron and Elpida is to maintain employment …." Of course, an acquisition conditional on maintaining employment would impede layoffs that are the source of synergy gains from takeovers. In addition, deals will fall through if all parties insist on maintaining employment.

Like Table 5, it is more difficult for unionized firms to seek a suitable acquirer conditional on succeeding employment contracts and cash holding per lifetime employee eases the problem in Table

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7. Executive ownership significantly reduces difficulties to seek an acquirer conditional on succession of incumbent employment contracts. PBR increases the difficulty but profitability eases labor contract succession constraints on sales of businesses.

4.7. Resistance of concerned employees

It is not surprising that concerned division employees resist downsizing and exit. The resistance is stronger as net debt increasing in Table 8, probably because of harshness of debt restructuring. Resistance may continue till going bankrupt. The court rules out the objection of dismissed employees of a company under the Corporate Reorganization procedure. There is no other resolution than bankruptcy.

5. Internal criteria and internal process concerning downsizing and exit

Now we determine why exit is so difficult for organizations to deal with. Lack of criteria and lack of internal processes are organizational inefficiency. Without criteria and internal processes, it is impossible for firms to decide whether to downsize and exit. The survey data indicates that more than 70% of firms do not have any internal criteria for making business restructuring decisions, notwithstanding 44.8% of firms of PBR below one. As shown above, employees own a part of residual claims though they own no shares. However, stakeholder theory provides explanation how conflicts between employees and shareholders to be resolved (Jensen, 2000). This issue is not apparent for firms in high growth. Once falling into long term declining, the vague of stakeholder interests leaves managers no criteria on which to make decisions of downsizing and exit. Next, we analyze the determinants of internal criteria and internal process to decide downsizing and exit.

5.1. Quantitative criteria

We performance logit regress of existence of quantitative criteria. The dependent variable takes the value one if a firm answers that it has quantitative criteria and lakes the value zero otherwise. It is well known that firms implement early voluntary retirement programs after two year consecutive

losses (Noda and Hirano, 2013). Surprisingly, our survey evidence indicates that only 17.2% of firms have such quantitative criteria. As shown in Table 9, large firms are more likely to set quantitative criteria for making downsizing and exit decisions. Firms set criteria evaluating excess capacity when PBR falling below one rather than specific business falling into loss making. Graham and Harvey (2001) find that a surprising number of firms use firm risk rather than project risk in evaluating new investments. Executive ownership enhances setting quantitative criteria. Strengthening managerial incentives might correct this weakness of organizations. Interestingly, a firm with a large board of directors is less likely to set quantitative criteria. This is consistent with Jensen (1993) that large boards of directors cause organizations to fail. Board independence is not relevant, however.

5.2. Quantitative criteria or qualitative criteria

About another 5.6% of use qualitative criteria to evaluate whether to withdraw from or sell businesses. In logit regression results in Table 10, the dependent variable takes the value one if a firm responds that it uses quantitative criteria or qualitative criteria and takes the value zero otherwise. The results are quite like that in Table 9. The only difference is that poor profitability increases existence of criteria.

5.3. No criteria

Among 73.1% of firms without any criteria, small firms, firms with a large board of directors, cash rich firms are more likely not to set criteria, as Table 11 indicates. The likelihood having no criteria decreases as executive ownership increasing. Foreign investors' shareholdings have not yet been able to significantly influences organizational efficiency.

5.4. Internal process

The survey asks whether a firm has the department in charge of evaluating whether the criteria are met, and the procedure for further consideration if the criteria are met. In Table 12, large firms tend to proceed structured processes to evaluate how to eliminate excess capacity. Less profitable, high

leveraged firms are more likely to have a internal process to evaluate divestment. This might suggest late organizational response to excess capacity. Executive ownership, foreign investors' shareholding has an insignificant positive coefficient. Board sizes and board compositions are not relevant.

5.5. Procedures upon proposal

More firms answer that the have a procedure for further consideration when a proposal for sale is made. Different from internal processes, there are no procedure unless a proposal is made. Table 13 exhibits that foreign investors' ownership increases the use of temporary procedure to evaluate proposed withdrawal/sale of businesses. This might suggest that firms respond to foreign investors' pressure by temporarily evaluating demanded downsizing and exit. But foreign investors have not yet been able to influence organization efficiency.

5.6. No processes

The remaining 60.3% of firms have no processes evaluating downsizing and exit. PBR is positively related to no processes and net debt ratio has a significant negative coefficient. In short, firms far from distress are less likely to evaluate divestment always or sometimes. Executive ownership and foreign investors' ownership reduce likelihoods of lack of process to evaluate downsizing and exit.

5.7 Discussion

Organizational aspects may influence the difficulty of exit that firms face and organizational effectiveness to deal with exit. We use the dummy variable of holding company and the number of segments to capture such effects. The dummy variable of holding company takes the value one if a firm is a holding company and takes the value zero otherwise. Survey analysis faces the risk that the survey questions are misunderstood, e.g., a single-segment firm is difficult to answer questions about withdrawal/sale of businesses. We find no significant influences. The omitted results are available upon request.

The surveys measure both actual difficulty of exit and organizational effectiveness to deal with exit. Our paper provides unique information to understand how difficult for firms to downsize and whether firms have a process to evaluate divestment. Our results shed new light to this area. There are also problems of our analysis. First, it is difficult to examine causality using one time survey. We need dynamic survey data in the future to figure out what enhances organizational effectiveness to deal with exit and how organizational effectiveness influence real actions and corporate value.

6. Conclusions

Despite lost three decades, 73% of firms have no criteria on which to base downsizing and exit decisions and 60% of firms do not have any processes to evaluate downsizing and exit. Executive ownership and foreign investors' shareholding might correct such weakness of organizations in response to excess capacity. Small boards of directors are more effective, but board compositions are not relevant. The existence of labor unions increases difficulties of employment adjustment but cash holding per lifetime employee mitigates difficulties of employment adjustment. This is because managers spend free cash to reduce personnel by implementing early voluntary retirement programs. Because managers buy labor peace for the quiet life, employees own a part of residual claims without holding equities. Such vague of management goals might leave managers to no criteria in deciding downsizing and exit. Our evidence suggests strengthening managerial incentives might enhance organizational effectiveness to deal with downsizing and exit.

Continuing with endless offering early voluntary programs proves that losing money for two consecutive years is no longer the early warning to start healthy employment adjustment. If the manager must spend cash for early voluntary retirees sooner or later, timely offering early retirement recruitment programs of profitable companies aiming to recover benefits both employees and shareholders. The only signal of timely downsizing is the reaction of the stock price. The positive reaction of stock price signals the prospect of recovery. As firms recognize the required early and drastic downsizing, there is increase in offering early voluntary programs by somewhat profitable firms since 2019. This change highlights a new topic for future research of labor and finance.

Takeovers eliminate overlapped capacity and thus create synergies. Labor protection reduces synergies and thus impedes takeovers. It is not surprising that domestic companies have been acquiring overseas companies, while domestic companies acquired via takeovers remain rare. More recently, the Ministry of Economy, Trade and Industry is launching a new guideline for takeovers that requires the manager to promptly bring a takeover bid to the board of directors for discussion. The above change in timing of offering early voluntary retirement programs might reduce redundant employment and thus reduce the constraints of succession of employment to seek acquisition.

Compared to slow response of managers, foreign investors, especially, active foreign investors react early rather than late. Active foreign investors demand low valuable firms for dividend increases and share repurchases. Also, foreign private equity funds, e.g. KKR and Carlye have been joining in MBOs and buyouts of listed subsidiaries. Though there are still some firms launching antitakeover measures, recently some companies recruited active investors to serve on the board. Our evidence suggests that firms respond to foreign investors' demand. It is important to assuring active foreign investors to play an active role in corporate redirections and in monitoring managers. This would be helpful to develop the capital market and the market for corporate control.

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Fig.1 Survey evidence on difficulties of exit
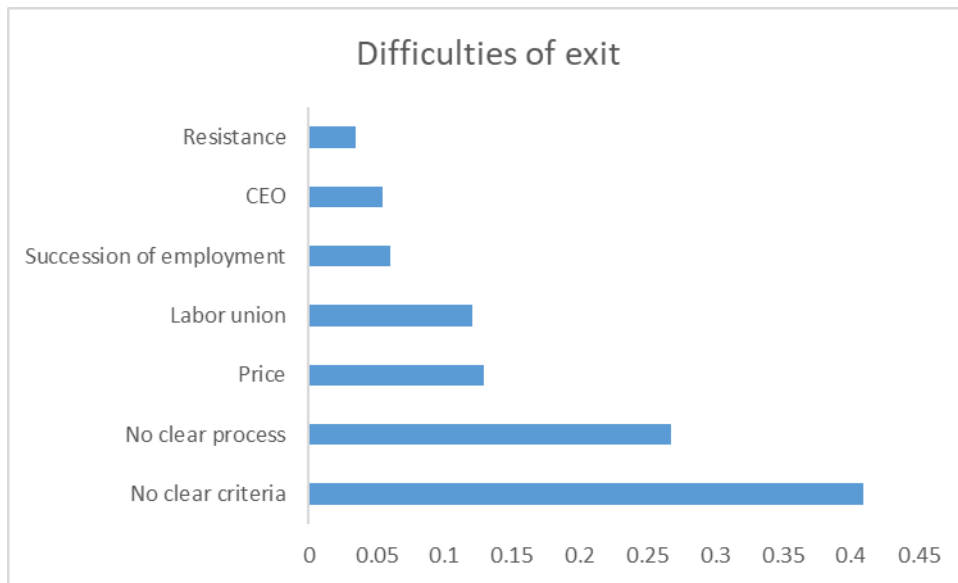
Fig. 2. Survey evidence on the difficulties in actual withdrawal/divestment. We report the percentage of firms that they have difficulties in actual withdrawal/divestment. No clear criteria is the percentage of firm answer that they have problems to decide divestment due to lack of clear criteria. No clear process is the percentage of firm answer that they have problems to decide divestment due to lack of clear process. Price is the percentage of firm answer that they have problems to find a suitable buyer in terms of price. Labor union is the percentage of firm answer that they have problems to obtain consensus of employees and labor unions. Succession of employment is the percentage of answer that they have problems to find a suitable buyer upon condition of succession of employment. CEO is the percentage of firms that answer that the CEO cannot decide.

Fig. 2 Survey evidence on evaluating criteria
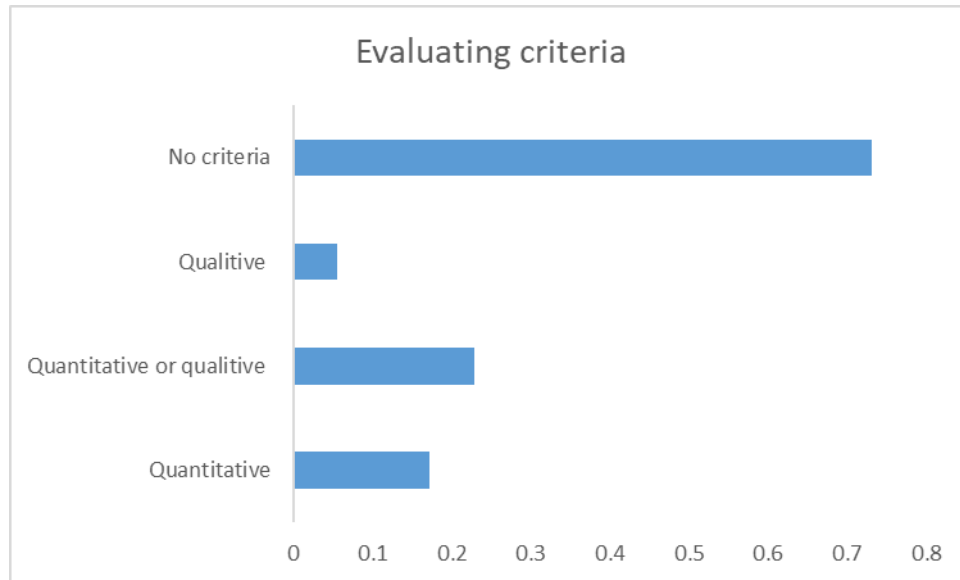
Fig. 2. Survey evidence on the existence of internal criteria concerning withdrawal/divestment decisions. We report the percentage of firms that have internal criteria to evaluate withdrawal/divestment. Quantitative is the percentage of firms with quantitative criteria, Qualitive is the percentage of firms with qualitative criteria, and Quantitative or qualitive is the percentage of firms with quantitative or qualitative criteria. No criteria is the percentage of firms without any criteria. The survey is based on the responses of 696 firms.

Fig. 3 Survey evidence on process of withdrawal/divestment decisions
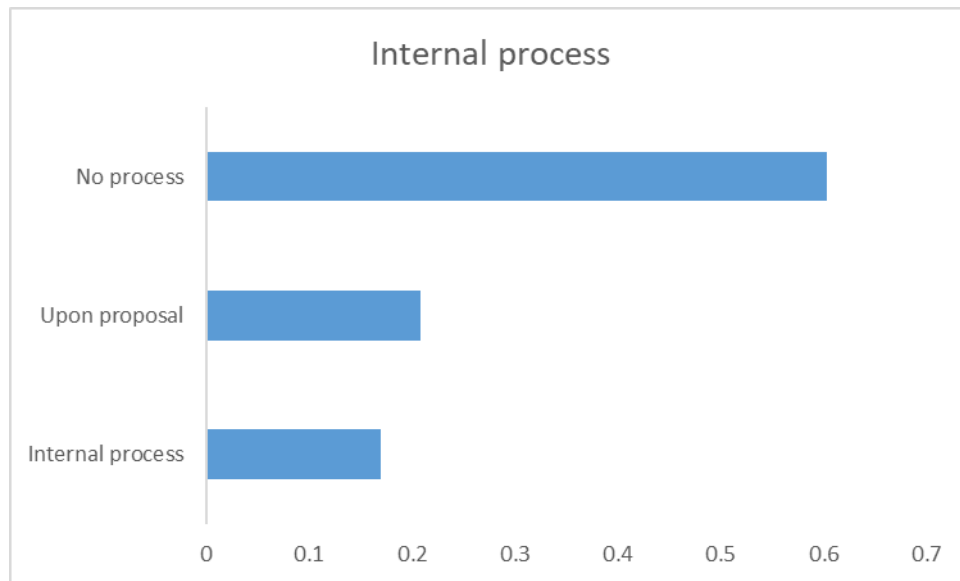
Fig. 3. Survey evidence on the existence of internal process concerning withdrawal/divestment decisions. We report the percentage of firms with internal process to decide withdrawal/divestment. Interna process is the percentage of firms with internal process to evaluate withdrawal/sale of businesses. Upon proposal is the percentage of firms with the procedure if there is a proposal for withdrawal/sale of businesses in the company. No process is the percentage of firms without any process. The survey is based on the responses of 696 firms.

Table 1 Summary statistics

Variable	Mean	p25	p50	p75	SD	N
ebit	0.0661753	0.0378557	0.0592676	0.0868406	0.0426174	696
leverage	0.4688771	0.341422	0.465835	0.6015501	0.1753089	696
rcash	0.1693205	0.0820403	0.1380972	0.2250032	0.1190302	696
rlevcash	0.2995566	0.1397259	0.3170761	0.4980929	0.2502633	696
cashempl	24.81404	8.232718	14.90634	29.08495	37.74226	520
pbr	1.605245	0.767555	1.095986	1.801165	1.837605	696
lowpbr	0.4482759	0	0	1	0.4976751	696
oforeign	0.1762387	0.0648382	0.1599972	0.2599964	0.1332829	696
odande	0.028994	0.0010033	0.0040367	0.0237037	0.0628916	696
lnmkt	25.16429	23.77852	25.0572	26.52101	1.823806	696
unionyes	0.6896552	0	1	1	0.4629675	696
lbsize	2.201618	2.079442	2.197225	2.397895	0.2943055	696
3 more o.d.	0.4827586	0	0	1	0.500062	696
r.o.d.	0.2960258	0.218254	0.2792208	0.3571429	0.117812	696

The variable ebit is earnings before interest, tax, and depreciation/assets. The variable leverage is debt/assets. The variable cashempl is cash holding per lifetime employee. The variable lnmkt is natural logarithm of market recapitalization. The variable pbr is market-book ratio. The dummy variable lowpbr takes the value 1 if pbr<1 and takes the value 0 otherwise. We measure lbsize as natural logarithm of the number of directors. The variable r o.d. is measured as the number of outside directors/the number of directors. The dummy variable 3 more o.d. takes the value 1 if three or more outside directors are appointed and takes the value 0 otherwise. The foreign investor ownership variable oforeign is the ownership level of foreign investors. The executive equity ownership odande is the equity stake held by directors and executives. The dummy variable unionyes takes the value 1 for unionized firms and takes the value 0 otherwise.

Table 2 Difficulty due to lack of internal criteria

ebit	-7.661***	-7.254***	-7.408***	-8.268***	-9.186***	-7.511***	-7.557***	-6.709***	-7.594***
	[2.474]	[2.605]	[2.617]	[2.917]	[2.886]	[2.486]	[2.482]	[2.577]	[2.479]
rlevcash	-0.747*	-0.711*	-0.666*	-0.770*	-0.807**	-0.720*	-0.725*	-0.776**	-0.832**
	[0.385]	[0.393]	[0.399]	[0.393]	[0.389]	[0.390]	[0.391]	[0.392]	[0.392]
lnmkt		-0.0211	0.00346						
		[0.0499]	[0.0610]						
pbr				0.025					
				[0.0588]					
lowpbr					-0.234				
					[0.194]				
lbsize						0.0405	-0.0587		
						[0.304]	[0.300]		
3 more o.d.						-0.12			
						[0.173]			
r o.d.							-0.33		
							[0.730]		
oforeign								-0.659	
								[0.681]	
odande								-1.246	
								[1.422]	
unionyes									0.319
									[0.208]
Constant	0.093	0.572	-0.00705	0.0813	0.288	0.0466	0.306	0.198	-0.0401
	[0.404]	[1.200]	[1.453]	[0.403]	[0.439]	[0.729]	[0.805]	[0.415]	[0.402]
Observations	690	690	690	690	690	690	690	690	690
Pseudo R2	0.0355	0.0357	0.0362	0.0356	0.0371	0.036	0.0357	0.0369	0.0381
Log plik	-450.8	-450.8	-450.5	-450.8	-450.1	-450.6	-450.7	-450.2	-449.6

The dependent variable takes the value 1 if a firm answers that it is difficult to evaluate divestment due to lack of criteria when withdrawing from or selling some businesses and takes the value 0 otherwise. The variable ebit is earnings before interest, tax, and depreciation/assets. The variable relevcash is (debt-cash)/assets. The variable lnmkt is natural logarithm of market recapitalization. The variable pbr is market-book ratio. The dummy variable lowpbr takes the value 1 if pbr<1 and takes the value 0 otherwise. We measure lbsize as natural logarithm of the number of directors. The variable r o.d. is measured as the number of outside directors/the number of directors. The dummy variable 3 more o.d. takes the value 1 if three or more outside directors are appointed and takes the value 0 otherwise. The foreign investor ownership variable oforeign is the ownership level of foreign investors. The executive equity ownership odande is the equity stake held by directors and executives. The dummy variable unionyes takes the value 1 for unionized firms and takes the value 0 otherwise.

Table 3 Difficulty due to lack of internal procedure

oforeign	-2.135***	-2.298**	-2.150***	-2.293***	-1.781**	-2.146***	-2.279***	-2.416***	-2.561***
	[0.752]	[1.073]	[0.791]	[0.778]	[0.790]	[0.755]	[0.767]	[0.845]	[0.854]
odande							-1.962		
							[1.528]		
leverage	-1.460***	-1.443**	-1.463***	-1.485***	-1.650***	-1.471***	-1.537***	-1.510***	-1.539***
	[0.555]	[0.565]	[0.554]	[0.554]	[0.574]	[0.559]	[0.557]	[0.562]	[0.562]
ebit					-3.256				
					[2.654]				
lnmkt		0.0236							
		[0.0820]							
pbr			0.00434						
			[0.0597]						
lowpbr				-0.152					
				[0.203]					
lbsize								0.484	0.545
								[0.372]	[0.374]
3 more o.d.								-0.0152	
								[0.208]	
r o.d.									0.436
									[0.889]
unionyes						0.0373			
						[0.220]			
Constant	0.00406	-0.552	-0.00523	0.0753	0.326	-0.00514	0.171	-0.967	-1.204
	[0.432]	[1.931]	[0.464]	[0.438]	[0.517]	[0.427]	[0.453]	[0.837]	[0.944]
Observations	648	648	648	648	648	648	648	648	648
Pseudo R2	0.052	0.0521	0.052	0.0528	0.0539	0.0521	0.0539	0.0545	0.0548
Log plik	-368.3	-368.2	-368.3	-368	-367.5	-368.2	-367.5	-367.3	-367.2

The dependent variable takes the value 1 if a firm answers that it is difficult to evaluate divestment due to lack of procedures when withdrawing from or selling some businesses and takes the value 0 otherwise. The variable ebit is earnings before interest, tax, and depreciation/assets. The variable leverage is debt/assets. The variable lnmkt is natural logarithm of market recapitalization. The variable pbr is market-book ratio. The dummy variable lowpbr takes the value 1 if pbr<1 and takes the value 0 otherwise. We measure lbsize as natural logarithm of the number of directors. The variable r o.d. is measured as the number of outside directors/the number of directors. The dummy variable 3 more o.d. takes the value 1 if three or more outside directors are appointed and takes the value 0 otherwise. The foreign investor ownership variable oforeign is the ownership level of foreign investors. The executive equity ownership odande is the equity stake held by directors and executives. The dummy variable unionyes takes the value 1 for unionized firms and takes the value 0 otherwise.

Table 4 Difficulty to seek an acquirer in terms of price

ebit	-12.71***	-10.02**	-11.08**	-12.62***	-12.66***	-12.61***	-12.57***	-12.28***	-13.15***	-13.32***	-13.18***
	[4.091]	[4.118]	[4.613]	[4.352]	[4.252]	[4.372]	[4.140]	[4.239]	[4.167]	[4.180]	[4.127]
lnmkt	0.247***	0.282***	0.258***	0.246***	0.246***	0.245***	0.241***	0.233***	0.193*	0.274***	0.266***
	[0.0758]	[0.0795]	[0.0770]	[0.0788]	[0.0767]	[0.0806]	[0.0783]	[0.0811]	[0.109]	[0.0807]	[0.0835]
pbr			-0.104								
			[0.131]								
lowpbr		0.489									
		[0.298]									
lbsize										-0.578	-0.382
										[0.511]	[0.489]
3 more o.d.										0.17	
										[0.266]	
r o.d.											0.744
											[1.084]
oforeign									1.069		
									[1.529]		
odande								-1.533			
								[2.540]			
unionyes							0.0895				
							[0.305]				
leverage					0.0298	0.0141					
					[0.748]	[0.815]					
rlevcash				0.0347							
				[0.585]							
rcash						-0.0765					
						[1.569]					
Constant	-7.330***	-8.533***	-7.491***	-7.311***	-7.332***	-7.284***	-7.244***	-6.918***	-6.141**	-6.796***	-7.173***
	[1.949]	[2.115]	[1.943]	[1.960]	[1.951]	[2.229]	[1.953]	[2.084]	[2.641]	[2.000]	[1.963]
Observations	670	670	670	670	670	670	670	670	670	670	670
Pseudo R2	0.0811	0.0862	0.0823	0.0811	0.0811	0.0811	0.0812	0.0818	0.0822	0.0839	0.084
Log plik	-241.2	-239.8	-240.9	-241.2	-241.2	-241.2	-241.2	-241	-240.9	-240.5	-240.4

The dependent variable takes the value 1 if a firm answers that it is unable to seek an acquirer in terms of sale price when selling some businesses and takes the value 0 otherwise. The variable ebit is earnings before interest, tax, and depreciation/assets. The variable leverage is debt/assets. The variable rcash is cash/assets. The variable rlevcash is (debt-cash)/assets. The variable lnmkt is natural logarithm of market recapitalization. The variable pbr is market-book ratio. The dummy variable lowpbr takes the value 1 if pbr<1 and takes the value 0 otherwise. We measure lbsize as natural logarithm of the number of directors. The variable r o.d. is measured as the number of outside directors/the number of directors. The dummy variable 3 more o.d. takes the value 1 if three or more outside directors are appointed and takes the value 0 otherwise. The foreign investor ownership variable oforeign is the ownership level of foreign investors. The executive equity ownership odande is the equity stake held by directors and executives. The dummy variable unionyes takes the value 1 for unionized firms and takes the value 0 otherwise.

Table 5 Difficulty to obtain consensus of employees and labor unions

unionyes	1.777**	1.758**	1.758**	1.668*	1.803**	1.784**	1.843**
	[0.854]	[0.848]	[0.848]	[0.883]	[0.836]	[0.846]	[0.844]
cashempl	-0.0153**	-0.0147**	-0.0147**	-0.0145**	-0.0144**	-0.0152**	-0.0135**
	[0.00653]	[0.00639]	[0.00639]	[0.00628]	[0.00653]	[0.00649]	[0.00648]
ebit		-0.291	-0.291				
		[4.869]	[4.869]				
lnmkt	0.252**	0.248**	0.248**	0.253*	0.288**	0.274**	0.186*
	[0.117]	[0.117]	[0.117]	[0.141]	[0.131]	[0.129]	[0.106]
pbr							-0.23
							[0.188]
lowpbr	0.834**	0.815*	0.815*	0.804*	0.875**	0.853**	
	[0.408]	[0.439]	[0.439]	[0.412]	[0.416]	[0.413]	
lbsize					-0.205	0.0819	
					[0.635]	[0.595]	
3 more o.d.						-0.23	
						[0.347]	
r o.d.					-1.235		
					[1.474]		
oforeign				-0.488			
				[1.556]			
odande				-4.036			
				[4.185]			
leverage		0.349	0.349				
		[1.031]	[1.031]				
Constant	-10.50***	-10.51***	-10.51***	-10.19***	-10.65***	-11.13***	-8.112***
	[3.037]	[3.082]	[3.082]	[3.628]	[3.079]	[3.318]	[2.428]
Observations	480	480	480	480	480	480	480
Pseudo R2	0.16	0.16	0.16	0.162	0.162	0.161	0.151
Log plik	-159.9	-159.8	-159.8	-159.6	-159.6	-159.7	-161.6

The dependent variable takes the value 1 if a firm answers that it is difficult to obtain consensus of employees and labor unions when selling some businesses and takes the value 0 otherwise. The variable ebit is earnings before interest, tax, and depreciation/assets. The variable leverage is debt/assets. The variable cashempl is cash holding per lifetime employee. The variable lnmkt is natural logarithm of market recapitalization. The variable pbr is market-book ratio. The dummy variable lowpbr takes the value 1 if pbr<1 and takes the value 0 otherwise. We measure lbsize as natural logarithm of the number of directors. The variable r o.d. is measured as the number of outside directors/the number of directors. The dummy variable 3 more o.d. takes the value 1 if three or more outside directors are appointed and takes the value 0 otherwise. The foreign investor ownership variable oforeign is the ownership level of foreign investors. The executive equity ownership odande is the equity stake held by directors and executives. The dummy variable unionyes takes the value 1 for unionized firms and takes the value 0 otherwise.

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Table 6 Difficulty for CEO to decide

3 more o.d.	0.837**		0.788**	0.826**	0.822**	0.840**	0.838**	0.824**	0.814**	0.741*	0.825**
lbsize		0.766	0.491								
lnmkt	-0.333***	-0.322***	-0.365***	-0.312***	-0.281**	-0.308***	-0.334***	-0.329***	-0.335***	-0.284**	-0.330*
ebit				-3.004							
rlevcash									0.783		
pbr					-0.247						
lowpbr						0.228					
lbsize		0.766	0.491								
oforeign											-0.517
odande											-3.081
unionyes							0.0187				
leverage								0.512			
cashempl										-0.0168	
rcash											
Observations	499	499	499	499	499	499	499	499	499	345	499
Pseudo R2	0.0775	0.0632	0.0791	0.0787	0.0845	0.0787	0.0775	0.0783	0.0811	0.0803	0.0808
Log plik	-124	-125.9	-123.7	-123.8	-123	-123.8	-124	-123.9	-123.5	-91.57	-123.5

The dependent variable takes the value 1 if a firm answers that it is difficult for CEO to decide when withdrawing from or selling some businesses and takes the value 0 otherwise. The variable ebit is earnings before interest, tax, and depreciation/assets. The variable leverage is debt/assets. The variable rcash is cash/assets. The variable rlevcahs is net debt ratio (debt-cash)/assets. The variable cashempl is cash holding per lifetime employee. The variable lnmkt is natural logarithm of market recapitalization. The variable pbr is market-book ratio. The dummy variable lowpbr takes the value 1 if pbr<1 and takes the value 0 otherwise. We measure lbsize as natural logarithm of the number of directors. The variable r o.d. is measured as the number of outside directors/the number of directors. The dummy variable 3 more o.d. takes the value 1 if three or more outside directors are appointed and takes the value 0 otherwise. The foreign investor ownership variable oforeign is the ownership level of foreign investors. The executive equity ownership odande is the equity stake held by directors and executives. The dummy variable unionyes takes the value 1 for unionized firms and takes the value 0 otherwise.

Table 7 Difficulty to assure succession of employment after sale

ebit	-14.11*	-13.36*	-14.74*	-14.69*	-15.27
	[7.947]	[8.052]	[8.421]	[8.279]	[10.35]
pbr	0.243**	0.259**	0.248**	0.253**	0.240**
	[0.102]	[0.109]	[0.106]	[0.105]	[0.112]
odande	-19.69**	-21.18**	-17.42**	-17.69**	-15.61**
	[9.295]	[9.789]	[8.708]	[8.498]	[7.928]
oforeign		-0.91			
		[2.069]			
unionyes	1.240*	1.264*	1.246*	1.261*	1.202*
	[0.694]	[0.703]	[0.694]	[0.688]	[0.697]
cashempl	-0.0150*	-0.0135	-0.0173*	-0.0162*	-0.0177*
	[0.00851]	[0.00912]	[0.00981]	[0.00924]	[0.00956]
lnmkt					0.116
					[0.169]
leverage					0.283
					[1.475]
lbsize			0.877	0.756	
			[0.764]	[0.665]	
3 more o.d.				0.0687	
				[0.407]	
r o.d.			0.767		
			[2.066]		
Constant	-3.194***	-3.234***	-5.277**	-4.887**	-6.171
	[1.141]	[1.161]	[2.216]	[1.965]	[4.209]
Observations	435	435	435	435	435
Pseudo R2	0.121	0.122	0.126	0.125	0.124
Log plik	-104.9	-104.8	-104.3	-104.4	-104.5

The dependent variable takes the value 1 if a firm answers that it is difficult to assure succession of concerned employment after sale when selling some businesses and takes the value 0 otherwise. The variable ebit is earnings before interest, tax, and depreciation/assets. The variable leverage is debt/assets. The variable cashempl is cash holding per lifetime employee. The variable lnmkt is natural logarithm of market recapitalization. The variable pbr is market-book ratio. The dummy variable lowpbr takes the value 1 if pbr<1 and takes the value 0 otherwise. We measure lbsize as natural logarithm of the number of directors. The variable r o.d. is measured as the number of outside directors/the number of directors. The dummy variable 3 more o.d. takes the value 1 if three or more outside directors are appointed and takes the value 0 otherwise. The foreign investor ownership variable oforeign is the ownership level of foreign investors. The executive equity ownership odande is the equity stake held by directors and executives. The dummy variable unionyes takes the value 1 for unionized firms and takes the value 0 otherwise.

Table 8 Resistance of concerned employees

rlevcash	2.622**	2.255*	2.672**	2.559**	2.351**	2.614**	2.545**	2.531**	2.488**	2.752**	2.514**
	[1.130]	[1.185]	[1.133]	[1.171]	[1.197]	[1.140]	[1.163]	[1.166]	[1.170]	[1.130]	[1.151]
ebit					-4.657						
					[7.642]						
lnmkt											0.192
											[0.120]
pbr				-0.384							
				[0.284]							
lowpbr						0.325					
						[0.469]					
lbsize							1.302	1.346	1.017		
							[0.793]	[0.827]	[0.842]		
3 more o.d.									0.495		
									[0.480]		
r o.d.								0.408			
								[2.150]			
oforeign			1.947								
			[1.705]								
odande		-14.13									
		[11.10]									
unionyes										-0.492	
										[0.547]	
Constant	-4.337***	-3.624***	-4.682***	-3.489***	-3.928***	-4.439***	-7.188***	-7.402***	-6.833***	-4.197***	-9.027***
	[1.090]	[1.106]	[1.140]	[1.183]	[1.261]	[1.105]	[2.085]	[2.376]	[2.115]	[1.100]	[3.163]
Observations	455	455	455	455	455	455	455	455	455	455	455
Pseudo R2	0.0854	0.102	0.0921	0.0994	0.0875	0.088	0.1	0.1	0.106	0.0897	0.0989
Log plik	-85.94	-84.34	-85.31	-84.63	-85.75	-85.7	-84.57	-84.55	-84.02	-85.54	-84.67

The dependent variable takes the value 1 if a firm answers that it is difficult to obtain consensus of employees and labor unions when selling some businesses and takes the value 0 otherwise. The variable ebit is earnings before interest, tax, and depreciation/assets. The variable leverage is debt/assets. The variable cashempl is cash holding per lifetime employee.   The variable lnmkt is natural logarithm of market recapitalization. The variable pbr is market-book ratio. The dummy variable lowpbr takes the value 1 if pbr<1 and takes the value 0 otherwise. We measure lbsize as natural logarithm of the number of directors. The variable r o.d. is measured as the number of outside directors/the number of directors. The dummy variable 3 more o.d. takes the value 1 if three or more outside directors are appointed and takes the value 0 otherwise. The foreign investor ownership variable oforeign is the ownership level of foreign investors. The executive equity ownership odande is the equity stake held by directors and executives. The dummy variable unionyes takes the value 1 for unionized firms and takes the value 0 otherwise.

Table 9 Internal quantitative criteria

odande	5.201***	4.671**	5.703***	6.338***	5.945***	5.199***	5.201***	5.323***	7.721***	5.192***	5.190***
	[1.714]	[1.882]	[1.831]	[1.944]	[1.868]	[1.716]	[1.714]	[1.791]	[2.375]	[1.711]	[1.704]
lowpbr	1.065***		0.925***	0.882***	0.917***	1.061***	1.065***	1.061***	0.966***	1.070***	1.067***
	[0.302]		[0.310]	[0.307]	[0.308]	[0.303]	[0.302]	[0.303]	[0.348]	[0.304]	[0.302]
lnmkt	0.615***	0.532***	0.645***	0.634***	0.635***	0.594***	0.615***	0.613***	0.608***	0.624***	0.625***
	[0.0882]	[0.0794]	[0.0903]	[0.0920]	[0.0909]	[0.107]	[0.0882]	[0.0889]	[0.109]	[0.0935]	[0.0901]
pbr		-0.163*									
		[0.0927]									
lbsize	-0.986**	-0.857**	-1.095**	-1.129**	-1.116**	-0.979**	-0.986**	-0.981**	-0.942*	-1.043**	-0.932**
	[0.425]	[0.414]	[0.440]	[0.446]	[0.443]	[0.427]	[0.425]	[0.426]	[0.546]	[0.471]	[0.438]
3 more o.d.											-0.127
											[0.256]
r o.d.										-0.338	
										[1.073]	
oforeign						0.394					
						[1.195]					
ebit			-5.391	-5.098	-4.781						
			[3.376]	[3.503]	[3.538]						
rlevcash					0.614						
					[0.580]						
unionyes								0.0717	0.311		
								[0.298]	[0.369]		
leverage		0.554									
		[0.702]									
cashempl								-0.00488			
								[0.00400]			
rcash				-1.509							
				[1.454]							
Constant	-15.93***	-13.31***	-16.19***	-15.27***	-15.85***	-15.49***	-15.93***	-15.92***	-16.48***	-15.92***	-16.21***
	[2.207]	[1.985]	[2.223]	[2.364]	[2.213]	[2.482]	[2.207]	[2.209]	[2.812]	[2.210]	[2.241]
Observations	680	680	680	680	680	680	680	680	499	680	680
Pseudo R2	0.158	0.142	0.165	0.166	0.166	0.159	0.158	0.158	0.161	0.159	0.159
Log plik	-262.8	-268	-260.8	-260.4	-260.5	-262.7	-262.8	-262.7	-197.7	-262.7	-262.6

The dependent variable takes the value 1 if a firm answers that it has internal quantitative criteria to evaluate withdrawal/sale of businesses and takes the value 0 otherwise. The variable ebit is earnings before interest, tax, and depreciation/assets. The variable leverage is debt/assets. The variable cashempl is cash holding per lifetime employee.   The variable lnmkt is natural logarithm of market recapitalization. The variable pbr is market-book ratio. The dummy variable lowpbr takes the value 1 if pbr<1 and takes the value 0 otherwise. We measure lbsize as natural logarithm of the number of directors. The variable r o.d. is measured as the number of outside directors/the number of directors. The dummy variable 3 more o.d. takes the value 1 if three or more outside directors are appointed and takes the value 0 otherwise. The foreign investor ownership variable oforeign is the ownership level of foreign investors. The executive equity ownership odande is the equity stake held by directors and executives. The dummy variable unionyes takes the value 1 for unionized firms and takes the value 0 otherwise.

Table 10 Internal quantitative or qualitive criteria

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
ebit	-8.352***	-10.18***	-7.400**	-7.568**	-7.060**	-8.900***	-8.316***	-10.14***	-8.473***	-8.432***
	[3.037]	[3.498]	[3.190]	[3.254]	[3.319]	[3.143]	[3.042]	[3.681]	[3.062]	[3.076]
lowpbr	0.610**		0.632**	0.597**	0.623**	0.588**	0.609**	0.497	0.617**	0.613**
	[0.278]		[0.280]	[0.277]	[0.279]	[0.281]	[0.279]	[0.321]	[0.279]	[0.279]
pbr		-0.0212								
		[0.0674]								
lnmkt	0.625***	0.570***	0.616***	0.612***	0.610***	0.583***	0.623***	0.639***	0.642***	0.643***
	[0.0852]	[0.0786]	[0.0848]	[0.0863]	[0.0852]	[0.101]	[0.0863]	[0.109]	[0.0900]	[0.0872]
odande	5.107***	4.711***	5.091***	5.494***	5.298***	5.133***	5.170***	7.685***	5.121***	5.127***
	[1.771]	[1.818]	[1.793]	[1.895]	[1.827]	[1.779]	[1.823]	[2.335]	[1.757]	[1.732]
oforeign						0.849				
						[1.121]				
lbsize	-1.053**	-0.945**	-1.067**	-1.082**	-1.082***	-1.051**	-1.049**	-1.216**	-1.157**	-0.956**
	[0.414]	[0.409]	[0.417]	[0.420]	[0.419]	[0.417]	[0.415]	[0.540]	[0.456]	[0.424]
3 more o.d.										-0.228
										[0.236]
r o.d.									-0.626	
									[1.004]	
leverage			0.559							
			[0.677]							
rcash				-0.935						
				[1.229]						
rlevcash					0.506					
					[0.535]					
unionyes							0.0366	0.247		
cashempl								-0.00525		
								[0.00407]		
Constant	-14.51***	-12.98***	-14.60***	-13.98***	-14.30***	-13.59***	-14.50***	-15.06***	-14.50***	-15.06***
	[2.012]	[1.824]	[2.014]	[2.132]	[2.007]	[2.299]	[2.015]	[2.600]	[2.014]	[2.035]
Observations	680	680	680	680	680	680	680	499	680	680
Pseudo R2	0.149	0.142	0.15	0.15	0.151	0.15	0.149	0.153	0.15	0.151
Log plik	-294.1	-296.7	-293.8	-293.8	-293.7	-293.8	-294.1	-218.5	-293.9	-293.7

The dependent variable takes the value 1 if a firm answers that it has internal quantitative or qualitive criteria to evaluate withdrawal/sale of businesses and takes the value 0 otherwise. The variable ebit is earnings before interest, tax, and depreciation/assets. The variable leverage is debt/assets. The variable cashempl is cash holding per lifetime employee. The variable lnmkt is natural logarithm of market recapitalization. The variable pbr is market-book ratio. The dummy variable lowpbr takes the value 1 if pbr<1 and takes the value 0 otherwise. We measure lbsize as natural logarithm of the number of directors. The variable r o.d. is measured as the number of outside directors/the number of directors. The dummy variable 3 more o.d. takes the value 1 if three or more outside directors are appointed and takes the value 0 otherwise. The foreign investor ownership variable oforeign is the ownership level of foreign investors. The executive equity ownership odande is the equity stake held by directors and executives. The dummy variable unionyes takes the value 1 for unionized firms and takes the value 0 otherwise.

Table 11 No criteria

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
lowpbr	-0.673***	-0.674***	-0.679***	-0.671***	-0.593**	-0.671***	-0.672***	-0.637**	
	[0.243]	[0.244]	[0.244]	[0.243]	[0.247]	[0.244]	[0.244]	[0.286]	
odande	-6.070***	-6.043***	-6.054***	-6.074***	-6.202***	-6.084***	-6.096***	-6.411***	-5.746***
	[1.843]	[1.807]	[1.839]	[1.845]	[1.878]	[1.842]	[1.869]	[2.229]	[1.887]
lnmkt	-0.501***	-0.529***	-0.514***	-0.497***	-0.526***	-0.501***	-0.500***	-0.513***	-0.444***
	[0.0747]	[0.0765]	[0.0773]	[0.0930]	[0.0796]	[0.0747]	[0.0751]	[0.0918]	[0.0685]
rcash	2.106*	2.102*	2.096*	2.119*	1.683	2.161*	2.102*		2.216**
	[1.095]	[1.082]	[1.090]	[1.113]	[1.161]	[1.167]	[1.106]		[1.099]
lbsize	0.875**	0.746*	0.962**	0.874**	0.907**	0.874**	0.873**	1.068**	0.790**
	[0.383]	[0.392]	[0.416]	[0.383]	[0.386]	[0.383]	[0.384]	[0.462]	[0.376]
3 more o.d.		0.331							
		[0.211]							
r o.d.			0.514						
			[0.898]						
oforeign				-0.0618					
				[1.055]					
ebit					3.753				
					[2.904]				
leverage						0.0793			
						[0.647]			
unionyes							-0.0151	-0.169	
							[0.265]	[0.334]	
cashempl								0.00508	
								[0.00367]	
pbr									0.086
									[0.0567]
Constant	11.60***	12.39***	11.59***	11.52***	11.93***	11.56***	11.60***	12.67***	9.891***
	[1.849]	[1.866]	[1.854]	[2.215]	[1.899]	[1.909]	[1.850]	[2.320]	[1.661]
Observations	686	686	686	686	686	686	686	509	686
Pseudo R2	0.119	0.122	0.12	0.119	0.121	0.119	0.119	0.114	0.111
Log plik	-351.4	-350.2	-351.2	-351.4	-350.5	-351.4	-351.4	-260.9	-354.6

The dependent variable takes the value 1 if a firm answers that it does have neither internal quantitative nor internal qualitive criteria to evaluate withdrawal/sale of businesses and takes the value 0 otherwise. The variable ebit is earnings before interest, tax, and depreciation/assets. The variable leverage is debt/assets. The variable cashempl is cash holding per lifetime employee.   The variable lnmkt is natural logarithm of market recapitalization. The variable pbr is market-book ratio. The dummy variable lowpbr takes the value 1 if pbr<1 and takes the value 0 otherwise. We measure lbsize as natural logarithm of the number of directors. The variable r o.d. is measured as the number of outside directors/the number of directors. The dummy variable 3 more o.d. takes the value 1 if three or more outside directors are appointed and takes the value 0 otherwise. The foreign investor ownership variable oforeign is the ownership level of foreign investors. The executive equity ownership odande is the equity stake held by directors and executives. The dummy variable unionyes takes the value 1 for unionized firms and takes the value 0 otherwise.

Table 12 Internal process

ebit		-8.836*	-7.079		-9.183**	-10.69**	-9.358**	-9.523**	-8.739*	-8.842**
		[4.746]	[4.470]		[4.354]	[4.194]	[4.404]	[4.392]	[5.136]	[4.453]
rlevcash	2.029***	1.486**	1.545***	2.010***	1.470**	1.572***	1.507***	1.494***	1.327*	1.449**
	[0.537]	[0.591]	[0.591]	[0.542]	[0.574]	[0.582]	[0.577]	[0.578]	[0.696]	[0.580]
lnmkt	0.398***	0.443***	0.469***	0.431***	0.442***	0.420***	0.480***	0.473***	0.433***	0.432***
	[0.0669]	[0.0729]	[0.0747]	[0.0697]	[0.0728]	[0.0901]	[0.0800]	[0.0808]	[0.0891]	[0.0743]
pbr	-0.098	-0.0137								
	[0.0805]	[0.0720]								
lowpbr			0.412	0.567**						
			[0.270]	[0.257]						
oforeign						1.115				
						[1.273]				
odande						3.451				
						[2.647]				
lbsize							-0.105	-0.33		
							[0.462]	[0.452]		
3 more o.d.							-0.288			
							[0.255]			
r o.d.								-0.624		
								[1.176]		
unionyes									0.44	0.237
									[0.370]	[0.296]
cashempl									-0.00594	
									[0.00569]	
Constant	-12.24***	-12.79***	-13.74***	-13.50***	-12.79***	-11.70***	-13.34***	-12.63***	-12.76***	-12.67***
	[1.767]	[1.836]	[1.936]	[1.907]	[1.837]	[2.144]	[1.919]	[1.837]	[2.236]	[1.843]
Observations	666	666	666	666	666	666	666	666	499	666
Pseudo R2	0.14	0.146	0.149	0.144	0.145	0.147	0.148	0.146	0.148	0.147
Log plik	-263.6	-261.8	-260.7	-262.2	-261.8	-261.5	-261.1	-261.5	-202	-261.5

The dependent variable takes the value 1 if a firm answers that it has the department in charge of evaluating whether the criteria are met, and the procedure for further consideration if the criteria are met and takes the value 0 otherwise. The variable ebit is earnings before interest, tax, and depreciation/assets. The variable leverage is debt/assets. The variable cashempl is cash holding per lifetime employee. The variable lnmkt is natural logarithm of market recapitalization. The variable pbr is market-book ratio. The dummy variable lowpbr takes the value 1 if pbr<1 and takes the value 0 otherwise. We measure lbsize as natural logarithm of the number of directors. The variable r o.d. is measured as the number of outside directors/the number of directors. The dummy variable 3 more o.d. takes the value 1 if three or more outside directors are appointed and takes the value 0 otherwise. The foreign investor ownership variable oforeign is the ownership level of foreign investors. The executive equity ownership odande is the equity stake held by directors and executives. The dummy variable unionyes takes the value 1 for unionized firms and takes the value 0 otherwise.

Table 13 Procedure upon proposal

pbr	-0.0983**		-0.159**	-0.0923**	-0.0997**	-0.0914**	-0.0930**	-0.100**	-0.103**	-0.122**
	[0.0452]		[0.0719]	[0.0449]	[0.0449]	[0.0463]	[0.0452]	[0.0458]	[0.0458]	[0.0523]
lowpbr		-0.156								
		[0.226]								
oforeign	3.836***	3.228***	3.626***	3.734***	3.841***	3.822***	3.827***	3.845***	3.626***	3.746***
	[0.820]	[0.820]	[0.817]	[0.827]	[0.824]	[0.824]	[0.825]	[0.875]	[0.876]	[0.983]
odande				-1.283						
				[1.777]						
ebit			4.157							
			[3.138]							
leverage					0.734					
					[0.625]					
rcash						-0.563				
						[0.979]				
rlevcash							0.496			
							[0.459]			
lbsize								-0.111	0.0718	
								[0.382]	[0.398]	
3 more o.d.								0.048		
								[0.219]		
r o.d.									1.078	
									[0.944]	
unionyes										0.117
										[0.290]
cashempl										0.00333
										[0.00309]
Constant	-1.175***	-1.334***	-1.371***	-1.091***	-1.474***	-1.036**	-1.255***	-0.954	-1.603	-1.511**
	[0.394]	[0.403]	[0.444]	[0.400]	[0.455]	[0.483]	[0.388]	[0.861]	[1.036]	[0.589]
Observations	658	658	658	658	658	658	658	658	658	490
Pseudo R2	0.0749	0.071	0.0775	0.0756	0.0769	0.0755	0.0767	0.0751	0.0768	0.0896
Log plik	-321	-322.4	-320.1	-320.8	-320.3	-320.8	-320.4	-321	-320.3	-236.4

The dependent variable takes the value 1 if a firm answers that it has the procedure for further consideration when there is a proposal for withdrawal or sale in the company and takes the value 0 otherwise. The variable ebit is earnings before interest, tax, and depreciation/assets. The variable leverage is debt/assets. The variable cashempl is cash holding per lifetime employee. The variable lnmkt is natural logarithm of market recapitalization. The variable pbr is market-book ratio. The dummy variable lowpbr takes the value 1 if pbr<1 and takes the value 0 otherwise. We measure lbsize as natural logarithm of the number of directors. The variable r o.d. is measured as the number of outside directors/the number of directors. The dummy variable 3 more o.d. takes the value 1 if three or more outside directors are appointed and takes the value 0 otherwise. The foreign investor ownership variable oforeign is the ownership level of foreign investors. The executive equity ownership odande is the equity stake held by directors and executives. The dummy variable unionyes takes the value 1 for unionized firms and takes the value 0 otherwise.

Table 14 No process

pbr	0.101**	0.106**		0.118**	0.101**	0.103**	0.113**	0.115**
	[0.0460]	[0.0448]		[0.0580]	[0.0456]	[0.0496]	[0.0453]	[0.0458]
lowpbr			-0.293					
			[0.195]					
oforeign	-1.714*	-1.670*	-1.301	-1.641*	-1.698*	-1.432	-1.781*	-1.577
	[0.970]	[0.969]	[1.027]	[0.972]	[0.970]	[1.106]	[1.000]	[0.981]
odande	-3.812**	-3.659**	-3.504**	-3.639**	-4.054**	-2.553	-3.597**	-3.642**
	[1.824]	[1.796]	[1.753]	[1.799]	[1.899]	[2.307]	[1.754]	[1.778]
lnmkt	-0.293***	-0.298***	-0.318***	-0.294***	-0.290***	-0.289***	-0.323***	-0.317***
	[0.0739]	[0.0727]	[0.0778]	[0.0734]	[0.0728]	[0.0847]	[0.0775]	[0.0772]
rlevcash		-1.297***	-1.298***	-1.352***	-1.275***	-0.910*	-1.345***	-1.314***
		[0.422]	[0.422]	[0.463]	[0.425]	[0.484]	[0.421]	[0.423]
leverage	-1.104*							
	[0.587]							
rcash	1.693*							
	[1.019]							
ebit				-1.01				
				[3.079]				
unionyes					-0.208	-0.203		
					[0.231]	[0.280]		
cashempl						-0.00019		
						[0.00330]		
lbsize							0.283	0.251
							[0.351]	[0.377]
3 more o.d.							0.122	
							[0.186]	
r o.d.								-0.459
								[0.840]
Constant	7.840***	8.121***	8.938***	8.102***	8.073***	8.072***	8.073***	8.150***
	[1.874]	[1.742]	[1.894]	[1.744]	[1.743]	[2.024]	[1.772]	[1.795]
Observations	692	692	692	692	692	515	692	692
Pseudo R2	0.0989	0.0987	0.0965	0.0988	0.0996	0.103	0.1	0.1
Log plik	-418.2	-418.3	-419.4	-418.3	-417.9	-311.8	-417.7	-417.7

The dependent variable takes the value 1 if a firm answers that it does not have has a process to evaluate withdrawal or sale of businesses and takes the value 0 otherwise. The variable ebit is earnings before interest, tax, and depreciation/assets. The variable leverage is debt/assets. The variable cashempl is cash holding per lifetime employee. The variable lnmkt is natural logarithm of market recapitalization. The variable pbr is market-book ratio. The dummy variable lowpbr takes the value 1 if pbr<1 and takes the value 0 otherwise. We measure lbsize as natural logarithm of the number of directors. The variable r o.d. is measured as the number of outside directors/the number of directors. The dummy variable 3 more o.d. takes the value 1 if three or more outside directors are appointed and takes the value 0 otherwise. The foreign investor ownership variable oforeign is the ownership level of foreign investors. The executive equity ownership odande is the equity stake held by directors and executives. The dummy variable unionyes takes the value 1 for unionized firms and takes the value 0 otherwise.