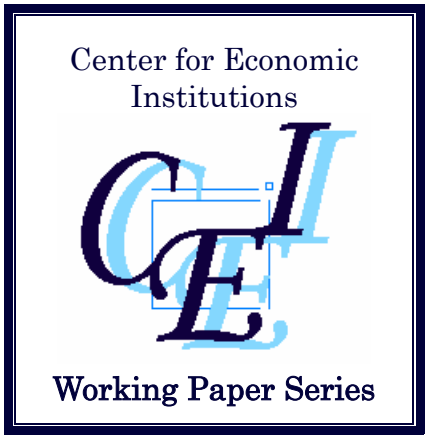
Center for Economic Institutions

Working Paper Series

CEI Working Paper Series, No. 2003-20

Shareholder activism in Japan: social pressure, private cost and organized crime

Gilles Hilary
Tomoki Oshika



Institute of Economic Research
Hitotsubashi University
2-1 Naka, Kunitachi, Tokyo, 186-8603 JAPAN
Tel: +81-42-580-8405
Fax: +81-42-580-8333
e-mail: cei-info@ier.hit-u.ac.jp

Shareholder activism in Japan: social pressure, private cost and organized crime.

This draft: August 15, 2003

Gilles Hilary
acgh@ust.hk
Department of Accounting
HKUST
Clear Water Bay
Kowloon
Hong Kong

Tomoki Oshika
oshikat@aoni.waseda.jp
Media Network Center
Waseda University
1-6-1, Nishiwaseda
Shinjuku-ku
Tokyo, 169-8050, Japan

PLEASE DO NOT QUOTE WITHOUT PERMISSION

We would like to thank workshop participants at the Chinese University of Hong Kong, Hitotsubashi University and Waseda University as well as Tim Adam, Vidhan Goyal, Clive Lennox, Ken Szymkowiak and T.J. Wong for their insightful comments. Azusa Kubo, Naoki Murakami, Hideyo Nosaka, and Ryo Takeuchi provided expert research assistance in collecting the data.

Abstract.

Prior research provides mixed results on the capacity of American shareholder activists to improve managerial behavior. In Japan, however, alternative means of external control (e.g. take-over, litigations) are not as effective as in the U.S. Challenging the management during the annual meeting may be the only option for disgruntled shareholders. Yet, the situation is complicated by the existence of corporate racketeers who disrupt the meetings to black-mail management. Our empirical results indicate that, contrary to governmental expectations, shareholder activism leads to subsequent improvement in corporate governance, informational environment and profitability. It also enables firms to attract more foreign and individual shareholders. This suggests that the Japanese authorities should reverse their policy of discouraging shareholder activism.

Shareholder activism in Japan: social pressure, public cost and organized crime.

During the last few years, Japan has been plagued by a deep-seated recession and a steady decline in stock prices. An explanation often suggested for this situation is the existence of a sub-optimal system of corporate governance. For example, board-interlocking is often presented as weakening the monitoring of Japanese management. In this paper, we study a less-understood aspect of the governance structure. Specifically we ask whether shareholder activism during annual meetings plays an important role in the Japanese system of corporate governance and whether this role is positive or not.

Japan offers several interesting features to study this question. First, from a practical point of view, and contrary to the U.S. or most other countries, a comprehensive dataset containing the date and the length of meetings, the number of questions asked or the number of shareholders present is available for most publicly traded firms. This avoids the high collection cost that potentially leads to small samples and possible biases. Japan is also interesting because it offers an underlying tension due to the involvement of the organized crime in the economy. In most countries, lengthy meetings may be

thought as reflecting the healthy activity of shareholders and their capacity to freely challenge management. However, the situation in Japan is complicated by the presence of "*sôkaiya*". *Sôkaiya* can be defined as corporate extortionists, who are typically related to the local mafia ("yakuza"). Their specialty is to operate during shareholders' meetings. They essentially offer the management the option to ensure (for a fee) that the annual meeting will proceed smoothly by intimidating "legitimate" shareholders or physically preventing them from exercising any pressure on management. At the same time, they make the threat of disrupting the meeting if their offer is declined. Since the *sôkaiya* are part of the "underground economy", it is of course hard to obtain reliable statistics. However, anecdotal evidence suggests that they may play an important role. For example, in 1997, *Dai-Ichi Kangyo Bank*, the fifth largest corporation in the world at the time, allegedly offered one *sôkaiya* a bribe of $96 million in the form of a "loan". The proceeds were used to make large investments in the biggest Japanese brokerage houses, which in turn were black-mailed (West [1999]). In response to this problem, Japanese authorities have encouraged companies hold their meeting on the same day and at the same time. The official aim of this tactic is to spread the *sôkaiya* manpower thin over numerous simultaneous meetings. Yet, this policy is problematic because it has a

similar effect on legitimate activists who cannot participate effectively either.[1] In other words, *sôkaiya* may offer justification for the management to adopt "defensive" behavior to avoid outside pressure, even if the firm is not under their immediate threat. The negative impact of the mafia may therefore be more indirect and subtle than immediately thought. Even if the issue of corporate racketeering is particularly salient in Japan, it is common to many countries. Italian *sôkaiya* are referred to as "*disturbatori"* while their South Korean counter-parts are called "*chongheoggun*". Although there is a large literature in the popular press concerning *sôkaiya* that emphasizes their influence, little systematic work beyond the reporting of anecdotal evidence has been done.

The internal mechanisms of control within Japanese firms are typically considered to be weak and ineffective. Absent any external pressure, management may be tempted to maximize its private benefits at the expense of shareholders and to reduce disclosure of publicly available information to conceal their behavior. The channels to provide such a pressure are more limited in Japan than in other economies. In this

[1] We define "legitimate" shareholder activism as the activity of shareholders who are not associated with the mafia, who asked questions pertaining to the firm (as opposed for example to questions related to the private life of the executives) and who do so with the intent of improving the operations of the firm.

context, asking embarrassing questions during annual meetings may be one of the few options left to disgruntle shareholders, short of selling the stocks. In Japan, long meetings appear to create a private cost for managers. For example, both the press and the authorities systematically monitor the length of the meetings. In response, these managers have resorted to different techniques (including some criminal ones) to control the length and avoid any embarrassment. As a consequence, significant departures from the 30 minutes target are rare and are typically forced by outside parties as a way to pressure management. For instance, Yoshiaki Murakami, a leading shareholder activist, mounted an attack on the *Tokyo Style* management in 2002, asking the company to increase dividends, to buy back stocks and to appoint outside directors. Although all of his resolutions were massively rejected during a marathon eight-hour shareholders' annual meeting, the company subsequently decided to voluntarily comply with his demands. Financial institutions were rumored to consider selling their stake in the company.[2] At the same time, *sôkaiya* also recognized from early on that they could profit from this situation by disrupting the annual event. For example, the meeting of

[2] Murakami questions Tokyo Style voting, *Financial Times*, 24 May 2002; Murakami Questions Tokyo Style Over UFJ Group Investment, *Nikkei Report,* 3 December 2002; Tokyo Style Buys Back 4mn Of Own Shares, *Nikkei Report,* 17 October 2002.

Matsuzakaya, a large Japanese retailer, lasted four hours in 1994 and three in 1995, extraordinary lengths by Japanese standards. The management started paying the *sôkaiya* in 1996. The meeting then lasted nineteen minutes in 1996 and thirty eight in 1997.[3] It is not known at this point which of these two scenarios (*Tokyo Style* vs. *Matsuzakaya)* is more common.

We use the existence of a sudden increase (a "spike") in the duration of the meeting as a proxy for activism, be it caused by legitimate shareholders or by *sôkaiya*. These "spikes" do not necessarily reflect the full pressure exerted on the management since outside parties can extract concessions by using the mere threat of the disruption and by negotiating before the meeting. However, the occurrence is most likely positively correlated with the actual degree of pressure (whose true extent is unobservable by the researchers). Similarly, we do not see whether the pressure is applied by legitimate shareholders or by organized crime. However, the subsequent consequences are very different depending on the source of the disruption. If these "spikes" in intensity signal the pressure applied by the mafia, it should indicate by default that this firm is not already controlled. In this case, it should either be well run

[3] Matsuzakaya Torishimariyaku to Sokaiya wo Taiho, *Mainichi Shinbun*, October 20, 1997

or if not, possibly subject to legitimate activism and improvement. However, if the mob is successful, the situation can only deteriorate because *sôkaiya* would then prevent legitimate activism during the meetings and remove the incentives to improve the firm's attractiveness to shareholders. At the same time, management in a well run firm may decide to take advantage of this new "protection" to increase its private benefits. Conversely, if "spikes" signal legitimate investors' pressure, improvement should occur on average, even if some attempts are unsuccessful.

We explore empirically several possible effects of activism (while controlling for different factors that may cause long meetings but are not related to shareholder actions). First, we consider the effect on operational performance and profitability. If the firm is under pressure from outside shareholders, management may decide to restructure the company in order to improve profitability and avoid future embarrassment at subsequent meetings. However, if the disruption signals that the firm is more likely to start paying organized crime for protection, management may decide to take advantage of this to extract more private benefits at the expense of the shareholders. Second, we consider the effect on the informational environment, since one of the common complains about Japanese firms is their lack of disclosure. If "spikes" signal legitimate shareholders'

pressure, management may feel compel to be more forthcoming with information. Subsequent annual meetings should then become more active. In addition, Durnev et al. [2001] report that firm-specific stock price variability is positively correlated with measures of stock price informativeness. If the firm starts disclosing more, the stock price should move more independently from the rest of the exchange and the synchronicity should be reduced. Conversely, if the management is about to be taken over by organized crime,[4] less information is expected to be released in the future as the mob would prevent indiscrete inquiries. Finally, we consider the impact on shareholder composition. To the extent that the firm becomes more transparent and more shareholder-friendly, it should attract more individual and foreign shareholders who could not initially access the information in a timely manner and may have felt to be at a disadvantage against large Japanese shareholders.

Results indicate that there is no negative market reaction after a lengthy meeting, but that average returns in the year following the "spike" are significantly higher than in the preceding one. Meetings following "spikes" become more active than they were

[4] By "take-over", we do not mean that *sôkaiya* are buying a significant portion of equity but rather that they gain influence within the firm.

before. More questions are being asked, more shareholders are attending, they are less likely to be on the national meeting day and they are lasting longer (although this last result is less robust). The synchronicity of the firm with the rest of the exchange declines, consistent with more firm specific information being incorporated. From an operational point of view, the return on assets (ROA) is improving. Finally, the percentage of shares held by foreign and individual investors increases, while the percentage held by financial institutions decreases. Overall, those results suggest that shareholder activists are able to capitalize on the embarrassment caused by long meetings to improve governance. They also suggest that Japanese firms use the *sôkaiya* as a justification for limiting the influence of these activists. Indeed, firms holding their meetings on the national meeting day tend to have shorter ones with fewer shareholders attending and fewer questions being asked. Their synchronicity is also higher while their profitability is lower. They have fewer foreign and individual investors. This suggests that the policy of concentrating meetings on one day should not be supported by Japanese authorities, but that on the contrary, activism should be encouraged. Even if *sôkaiy*a adversely affect some firms, shareholder activism does not currently appear to be a problem for the Japanese financial system but instead has some positive economic effects on corporate governance and market efficiency.

We believe that the study is potentially relevant to practitioners, to policy makers and to academics involved in corporate governance in Japan, but also in other countries. First, it contributes our understanding of corporate governance in general. We use Japan in this study because of a unique data set, of the size of its financial market and of the alleged involvement of organized crime but also because it offers a more powerful setting to study the effect of annual meetings *per se* (as opposed to other forms of shareholder activism). We find strong evidence of positive effects of activism during Japanese meetings. This is in contrast to results on activism in the U.S. where the evidence is mixed at best. This may initially seem counter-intuitive given the reputation of Japan for weak shareholder protection. However, it is not unexpected considering that the other mechanisms available to American investors (such as litigation or hostile take-over) are much weaker in Japan. Disrupting annual meetings may therefore be the last option of disgruntled shareholders. We believe that the empirical results are also relevant to policy makers in Japan. As previously mentioned, Japanese authorities have supported policies restricting the influence of activists on the grounds that meetings would offer an opportunity for the mafia to infiltrate the economy. Although our analysis suggests that long meetings entail

private costs for managers, we show that they have positive effects for the shareholders. The policy of concentrating the meetings, on the other hand, is shown to be detrimental to market efficiency and corporate governance. These results may help to understand the deep-seated recession and poor performance of the stock market in the last decade. For example, La Porta et al. [1997] stress the importance of effective legal protection of shareholders in ensuring the existence of outside financing.

I Background of shareholder activism.

1) "Legitimate" activism.

The question of whether outside shareholders, either large or small, can positively influence corporate governance or profitability through activism has been mainly researched within the American setting. Most of the studies have used small and possibly non random samples. Evidence of success is mixed at best. Wahal [1996] considers the effect of shareholder activism from pension fund on American companies. He reports that there are no significant abnormal returns at the time of the targeting for the vast majority of firms. Results also suggest that there is no evidence of significant long-term improvement in either stock price or accounting measure.

Karpoff et al [1996] find comparable results for shareholder-initiated proxy proposals. Smith [1996] also finds no improvement in operating performance for firms targeted by CalPERS but reports an increase in price for firms that agree to cooperate with the fund. Strickland et al [1996] analyze the effect of the United Shareholder Association, an association of largely small shareholders, which negotiated 53 agreements with mainly large and poor performing American firms in order to improve their corporate governance. The announcement of the agreement led to an average abnormal return of 0.9%.[5] Prevost and Rao [2000] report that firms targeted once by pension funds experience no long term abnormal returns but firms subjected to repeated attacks experience negative ones. The amount of research on Japan is limited, although Omura [1998] finds a positive correlation between the quality of corporate governance among Japanese firms and the amount of market-based financing.

2) *Sôkaiya*.

Sôkaiya are Japanese corporate extortionists, who operate during shareholders' meetings. They essentially offer the management the option to ensure that the annual

[5] Interestingly, T. Picken Boone, the founder of *United Shareholder Association*, tried to bring the same methods to Japan but was shouted down by *sôkaiya* on his first (and only) attempt.

meeting will proceed smoothly by "controlling" undesirable questions. At the same time, they make the threat of disrupting it if their offer is declined. Although *sôkaiya* have been rumored to have murdered at least one uncooperative CEO, their actions typically involve less-violent methods. For example, they may ask questions pertaining to the operations of the firms but also related to the personal life of the managers or they may simply disrupt the meeting by asking irrelevant questions or screaming. Ryall [2003] describes their approach in the following way: "If a company's management refuses their demands for a payoff, they disrupt the meeting, shouting abuse at board members and accusing them – with or without ground – of sexual misconduct or gross mismanagement. In a nation famed for its loved of harmony, their tactics proved remarkably successful for half a century."

As the sôkaiya are part of the "underground economy", reliable statistics are difficult to obtain. However, anecdotal evidence suggests that they are very active, even among large companies. Apart from the cases of *Dai-Ichi Kangyo Bank* and several large Japanese brokerage houses discussed in the introduction, world-famous corporations such as *Hitachi, Toshiba, Mitsubishi, Toyota, Nissan* and many others have either admitted or been rumored to pay-off *sôkaiya* (West [1999]). An executive at

Ajinomoto, a processed food company, is said to have had a budget of as much as Y100 million a year to negotiate with the sôkaiya (Ogino [1997]). In 1997, a survey of 1,200 Japanese firms revealed that 67% recognized having paid sôkaiya, even though payments became a criminal offense in 1982.[6] The threat from the mob is sufficiently credible that Japanese authorities encourage firms to hold their meeting at a similar date. The goal of this tactic is officially to prevent the sôkaiya to attend too many meetings but this has a similar effect on legitimate shareholders who cannot participate effectively either. However, in spite of this seemingly strong influence, there has been little systematic empirical study of this phenomenon. For example, Maruko [2002] notes that "it is somewhat surprising that more has not been written about this form of organized crime."

III Hypotheses Development.

The internal mechanisms of control within Japanese firms are typically considered to be weak and ineffective. Therefore, absent any external pressure, management may be tempted to behave in a way that is sub-optimal for the shareholders (for example, by making unprofitable investments to build an "empire") and to reduce disclosure of publicly available information to conceal this behavior. However, the

[6] Fushoji de Nigeru na, 896 Nikkei Business 38, 45 (1997).

means of providing such external pressure are not as widely available in Japan as in other economies. For example, the market for take-over is not active (Shleifer and Vishny [1997]), shareholder litigation is rare (West [1999]) and managers' compensation is typically not based on stock price (Kaplan [1994]). Since analysts are typically compensated on the amount of shares bought by their clients, they may be reluctant to criticize the management of the firms they are essentially trying to promote (West [1999]).

In this context, challenging the management during annual meetings may be one of the few choices left to disenfranchised investors, apart from selling the stocks. Prior empirical evidence suggests that the actual length of the meetings is significant information in Japan and that maintaining the appearance of control is important. For example, West [1999] reports that the length of large firms' meeting is usually the top story on the Japanese evening news and that banks have to promptly report the meeting length to the Ministry of Finance. More than 40% of the meetings in our sample lasted between 25 and 35 minutes. As previously mentioned, a survey revealed that 67% of the firms had management willing to face criminal prosecution and jail time in order to keep the length of the meeting under control. This would suggest that departure from

the target of 30 minutes is costly for the management, and thus, that any deviation should only occur under outside pressure. An explanation for this cost is public opinion and embarrassment, factors that have been shown to affect managerial behavior. For instance, the American shareholder activist Robert Monks resorted to public shaming of the directors of SEARS after his proxy fight failed. Zingales [2000] indicates that "the embarrassment for the directors was so great that they implemented all the changes proposed by Monks". Skeel [2001] provides other examples of public shaming in the context of corporate law. Dyck and Zingales [2003] report evidence suggesting that firms respond more to environmental pressure when the press is sufficiently strong to impose significant cost on the management's reputation. Wu [2003] also reports that public shaming by CalPERS can damage the reputation of American managers and directors. Arguably, social pressure is even stronger in Japan. For example, Dyck and Zingales [2003] report that Japan has the third highest readership in the world, suggesting a large demand for public information. This may explain the strong dislike of Japanese management for long meetings and their exploitations by activists as a form of black-mail.

We use the existence of an abnormally long meeting (a "spike") as a sign of the

activism, whether it is caused by *sôkaiya* or by legitimate shareholders. If "spikes" of activity signal an attempt by organized crime to take control of a company, it should indicate by default that this firm is not currently under the influence of the mob (otherwise it would not incur the cost of disrupting the meeting). In this case, the firm should already be well-run or if not, possibly subject to legitimate activism. However, if the mafia's attempt to take-over the control of the firm is successful, the situation can only deteriorate because *sôkaiya* would then prevent legitimate activism during the meetings and remove the incentives to improve the firm's operations. A firm with poor current practices would have little incentive to change, while the management of a well-run firm may decide to take advantage of this new "protection" to increase its private benefits. All criminal attempts may not be successful and some battles may happen between different groups fighting for territories, but on average, the quality of corporate governance should go down. Conversely, if a sudden long meeting signals investors' pressure to improve the firm's behavior, progress should occur on average since the occurrence of the "attack" would make subsequent threats (either implicit or explicit) more credible. Hence, management would become more likely to cave in during subsequent negotiations. Thus, although the identity of the activists is not publicly available, it can be inferred from the ex post consequences of the long meeting.

Note that we only observe evidence of external pressure when there is a long meeting. It is quite likely that in some instances *sôkaiya* or legitimate activists approach management prior to the meeting and obtain what they want just by threatening to disrupt it. Our tests therefore are likely to understate the real magnitude of the effect of contentious meetings. However, we have no reason to believe that neither the legitimate activists nor the *sôkaiya* are better than the other group at extracting concessions based on the threat of disruption. Therefore, we do not expect the direction of the effect to be systematically biased in favor of one of the two groups.

To empirically study these different possibilities, we investigate several aspects. First, we consider the effect on corporate governance through meetings' characteristics of subsequent meetings. If sudden long meetings are the precursor of an improvement in corporate governance, the subsequent ones should be less perfunctory. This is, in turn, should attract more shareholders and a higher attendance should be observed. On the other hand, if lengthy meetings are the first step in a mafia takeover, opposite results should be expected. Second, we consider the effect on the informational environment by studying the firm synchronicity with the rest of the exchange. Durnev et al. [2001] report that firm-specific stock price variability is positively correlated with measures of

stock price informativeness. The more firm-specific information is incorporated into the price, the less it co-varies with the rest of the exchange.[7] If a lengthy meeting is the prelude to a reduction in disclosure, the amount of firm specific information should decline. The synchronicity of the firm with the rest of the exchange (i.e. the R^2 of a regression explaining the firm return by the variation of the overall market and industry index) should subsequently increase. Opposite results would be expected in case of legitimate activism. Third, we consider the effect on profitability. If the long meeting is due to disgruntled shareholders, management may initiate some restructuring to improve the firm's operation, in which case the ROA or the likelihood of making a profit may be improving. Finally, we consider the impact on shareholder composition. To the extent that the firm becomes more transparent and more shareholder-friendly, it should attract a larger proportion of individual and foreign shareholders who could not initially access the information in a timely manner and may feel at a disadvantage against large Japanese shareholders. Conversely, if organized crime is about to take control of

[7] To validate this result with Japanese data, we compute measures of price informativeness for Japanese securities similar to the ones described in Durnev et al [2001] or Lundholm and Myears [2002]. When we regress synchronicity on these measures (and different control variables), the coefficients are negative, consistent with synchronicity being a measure of firm specific information available to the Japanese market participants.

the firm, there should be a reduction in those categories.

IV Empirical tests and results.

1) Sample.

We retrieve all information about the annual meetings (length, date, location, number of shareholders present, number of questions asked) from the *Shiryoban Shoji Homu*. This publication reports the information for virtually every large and mid-sized Japanese firm. The mere existence of this report suggests that the level of activity at annual meetings (or the departure from its expected level) is considered important in Japan. We obtain data on price, earnings and other accounting information from the PACAP database. We follow the convention of eliminating firms from the financial, insurance and real estate (FIRE) sectors (PACAP item INDID equal to 501, 511, 512, 513 or 601) since those firms face a different corporate governance environment.[8] The sample period covers 10 years from 1991 to 2000.

2) Descriptive statistics.

[8] When relevant, securities other than common stocks are deleted (PACAP item STKTYP not equal 1).

Descriptive statistics are reported in table 1. Annual meetings in Japan are not a lengthy process. They last less than thirty minutes on average and no question is asked in the wide majority of the cases. It is even a bit surprising that an average of 85 shareholders (or on average slightly more than 1% of the shareholders) bother attending. By comparison, *General Motors* received a lot of negative press coverage in 1995 for having its shortest and smallest meeting in decades. It lasted two and half hour, was attended by 137 shareholders (versus more than 1,600 people in 1992, a more typical year) and cost $150,000 (versus $1.2 million in 1994).[9]

We define a "spike" as an annual meeting that lasts more than 50% of the average time for a given firm. To avoid cases where there is a large proportional but small absolute increase (e.g. a meeting lasting 16 minutes for a firm with an average of 10), we also require that the gathering lasts more than thirty minutes (the average in Japan reported in Table 1).[10] We first consider the 3-day (the day of the meeting, the previous trading day and the subsequent one) market-adjusted return after a lengthy meeting but

---

[9] "New GM Annual Meeting: Smallest, Shortest and Cheapest, But Circus-Like", *The Associated Press,* 26 May 1995.

[10] As a robustness check, we define a "shock" as a "spike" followed by a "valley" (a meeting that lasted less than 75% of the average time for the firm and less than 30 minutes) since this pattern may be more typical of a situation where *sôkaiya* are involved. Results still hold.

we do not find any significant negative market reaction.[11] This suggests that long meetings are not an opportunity for the management to announce some important news such as plans to restructure the company or to reorganize the management. We then examine the long term returns one year prior to the "spike" and one year after. To do so, we form an equally weighted portfolio of firms which had a long meeting and we calculate the difference between their returns and the market return in each month. In the 12 months prior to the "spike", the portfolio had a significant average negative returns of -6.25% compared to the market (t-statistic = -5.01).[12] However, a similar portfolio had average monthly returns indistinguishable from the market in the following year for firms that did not have multiple long meetings and marginally negative (p-value=0.08) for firms that had multiple long meetings.

---

[11] When we vary the minimum length in the definition of a "spike" from 30 minutes to two hours, we do not find any significant negative market reaction unless the meeting last more than 2 hours, an extraordinary long time by Japanese standards. Besides, we observe only 54 cases (out of 13,906 observations where both return and length of the meeting are available, or 0.4% per cent of the annual meetings) that meet these criteria. Even this significance is conditional on including 7 observations that had a return of more than 4% below the market that day. Our results are comparable to the ones reported by West [1999].

[12] Excluding the month prior to the meeting (during which annual results are typically announced) gives similar results.

Table 2 reports the likelihood of a long meeting to occur. We find 173 cases in the sample (or approximately 1.8% of all meetings). From a theoretical point of view, it is unclear whether "spikes" should be anything but random. To the extent that long meetings impose costs on both the management and the party causing them (being legitimate shareholders or *sôkaiya*), "spikes" should not happen if their only purpose is to extract some concessions from the management and if all parties are fully informed. If this is the case, the management should optimize the pay-off to the *sôkaiya* or to the shareholders so that it is not profitable for them to incur the cost of attacking. The situation would be similar to the one described by Hicks [1963] in the case of strikes. They only happen in case of miscalculations by either party, and hence occur randomly. However, we further investigate this question by using two Probit regressions. The dependent variable is $SPIKE_{i,t}$ (a dummy variable that takes the value of one if there is a "spike" for firm i at year t, zero otherwise). The independent variables are $LOGASSETS_{i,t}$ (the log of assets, PACAP item BAL9), $SECTION_{i,t}$ (a dummy variable that takes the value of one if the firm is traded on the first section of the Tokyo Stock Exchange, zero otherwise), $ROA_{i,t}$ (the return on assets calculated as the ratio of PACAP item INC9 over PACAP item BAL9), $LOSS_{i,t}$ (a dummy variable that takes the value 1 if

net income, PACAP item INC9, is negative, 0 otherwise) and $FIRMRET_{i,t-1}$ (the firm yearly return, PACAP item DRETWD, including the month when the annual meeting occurs and the 11 months preceding). We also include $DAY_{i,t}$ (a variable that takes the value of one if the annual meeting is held on the mode date for the date, 0 otherwise), $TIME_t$ (a time trend), $FOREIGN_{i,t}$ (item JAF79, shares owned by foreigners scaled by total number of shares, JAF81), $INDIV_{i,t}$ (item JAF80, shares owned individuals scaled by total shares).[13] In a second specification, we only control for $LOGASSETS_{i,t}$, $ROA_{i,t}$ and $LOSS_{i,t.}$ The standard errors are robust and allow for clustering of observations by year. Empirical results are reported in Table 2, column 1 for the full model, column 2 for the parsimonious one. They indicate that long meetings are more likely for larger firms, suffering from a loss or a low ROA and having their meeting on a day different from most other Japanese firms. This is broadly consistent with the results on firms targeted by American shareholder activists (e.g. Karpoff et al [1996], Wahal [1996]). The time trend suggests that long meetings became more common over time. However,

[13] We also include $GOV_{i,t}$ (PACAP item JAF75, the shares owned by government and local government scaled by the total number of shares), $FIN_{i,t}$ (item JAF76, shares owned by financial institutions, plus item JAF77, shares owned by securities companies, also scaled by the total number of shares), and $CORP_{i,t}$ (item JAF78, item owned by other business corporations scaled by the total number of shares). These variables are not significant, not tabulated in Table 2 and not subsequently used in the Probit regressions.

consistent with the "random occurrence hypothesis", the R^2 of the regression is small.

3) Change in meeting characteristics.

We consider the effect of a "spike" on the characteristics of meetings. To do so, we use three main specifications. The first one is an ordinary least square regression with a firm fixed effect (subsequently referred to as OLS FE) using firms that had a long meetings. This specification assumes that the occurrence of a "spike" is random and that the effects are permanent.[14] We use the meeting characteristics (collectively referred to as $CHAR_{i,t}$ in equation (1) below) as the dependent variable. Specifically, we use: $ATTEND_{i,t}$ the number of shareholders attending the annual meeting of firm i at time t, $PERC_{i,t}$, the percentage of shareholders attending the annual meeting, $SENTQ_{i,t}$, the number of questions sent by mail to the firm before the annual meeting, $MEETQ_{i,t}$, the number of questions asked at the meeting and $LENGTH_{i,t}$, the length of the annual meeting in minutes and finally $DAY_{i,t}$. We then regress the characteristics on $SPIKE_{i,t}$ and $AFTER_{i,t}$ (a dummy variable that takes the value of one in the period subsequent to a "spike", zero otherwise). We control for the size of the firm by including $LOGCAP_{i,t}$

[14] In particular, this specification ensures that our results are not driven by mean reversion.

(the log of the market capitalization, PACAP item MKTVAL, at the end of the month when the annual meeting occurs). To control for the performance of the firm, we include three previously defined variables: $ROA_{i,t}$, $LOSS_{i,t}$ and $FIRMRET_{i,t-1}$. All variables are demeaned to provide a firm fixed effect. To avoid the overlapping and confounding effects of repeated long meetings, firms with multiple "spikes" are deleted when the OLS FE is run. To the extend that multiple meetings signal that the first "spikes" were not successful in achieving the goals of the *sôkaiya* or the legitimate shareholders, deleting these firms enables to concentrate on cases where the subsequent effects are more likely to be produced.

(1) $CHAR_{i,t} = \gamma_1 SPIKE_{i,t} + \gamma_2 AFTER_{i,t} + \gamma_3 LOGCAP_{i,t} + \gamma_4 ROA_{i,t} + \gamma_5 LOSS_{i,t} + \gamma_6 FIRMRET_{i,t-1} + e_{i,t}$

We also use a second specification that controls for the possible endogeneity of the occurrence of long meetings. Following Maddala [1983], we estimate the effect of "spikes" with a two-step process. First, we estimate the likelihood of a "spike" at time t through a Probit regression using $LOGASSETS_{i,t}$, $ROA_{i,t}$, and $LOSS_{i,t}$ as exogenous variables (this is similar to the parsimonious model described in IV.2).[15] In a second

[15] As a sensitivity analysis, we also use the extended model from the Probit regression. Most results

step, we use an OLS regression including $SPIKE_{i,t}$, $TIME_t$, $I^j_{i,t}$ (industry dummies)[16] and $LAMBDA_{i,t}$ (the inverse of the Mills ratio obtained from the first step). The standard errors are corrected according to Maddala [1983]. The dependent variable in the second step is the change in meetings' characteristics from the year preceding the meeting (t-1) to the year following the meeting (t+1). We also consider the change from t+1 to t+2 and from t+2 to t+3 but the results are not tabulated. To be consistent with the OLS FE specification, firms with multiple long meetings are deleted in the tabulated results but we perform a sensitivity test on this truncation and discuss the qualitatively similar results obtained from the full sample.

$$(2)\ \Delta CHAR_{i,t+1} = \beta_0 + \beta_1\, SPIKE_{i,t} + \beta_2\, TIME_t + \beta^j_3\ I^j_{i,t} + \beta_4\, LAMBDA_{i,t} + \varepsilon_{i,t}$$

As an alternative third specification, we use variables in the second step that are identical to the ones in the OLS FE but instead of demeaning them, we take the difference between t-1 and t+1. To ensure that the results are not driven by corporate events simply correlated with long meetings but not related to shareholder activism, we also include $\Delta SHR_{i,t+1}$ (the absolute value of change in the total number of shares divided by the number of shares at t-1) and $\Delta ASSET_{i,t+1}$ (the absolute value of the

---

carry on, generally with a higher significance.

change in total assets divided by total assets at t-1). $\Delta SHR_{i,t+1}$ proxies for the changes in equity due to events which may trigger a longer meeting such as share issuances or buy-backs. $\Delta ASSET_{i,t+1}$ proxies for a change in investment due to similar events such as major acquisitions or significant divestures.[17] Note that this last specification is only for descriptive purposes since we subsequently treat $\Delta ROA_{i,t+1}$ and $\Delta LOSS_{i,t+1}$ as endogenous variables with respect to the "spike".

$$(3)\ \Delta CHAR_{i,t+1} = \beta_0 + \beta_1\ SPIKE_{i,t} + \beta_2\ \Delta LOGCAP_{i,t+1} + \beta_3\ \Delta ROA_{i,t+1} + \beta_4\ \Delta LOSS_{i,t+1} + \beta_5\ \Delta FIRMRET_{i,t+1} + \beta_6\ \Delta SHR_{i,t+1} + \beta_7\ \Delta ASSET_{i,t+1} + \beta_8\ LAMBDA_{i,t} + \varepsilon_{i,t}$$

Results reported in Table 3 indicate that meetings following a "spike" become more active. All specifications indicate that more questions are asked at the meetings, that more shareholders attend, and that the meeting is less likely to be on the national meeting day. $SPIKE_{i,t}$ is also associated with longer subsequent meetings in Panel C, when observations from firms subject to multiple "spikes" are included or when a "spike" is defined as lasting more than twice the average length of a given firm and more than

---

[16] Results for the industry dummies are not tabulated.

[17] Taking the signed value of the difference does not materially affect the results.

thirty minutes (these two last results are not tabulated).[18] Control variables unsurprisingly indicate that bigger firms are able to attract more shareholders and that the average length increased over-time. When we consider the change between t+1 and t+2 or between t+2 and t+3, $SPIKE_{i,t}$ is positive in the *ΔATTEND, ΔPERC, ΔMEETINGQ, ΔLENGTH* regressions and negative in *ΔDAY* regressions. The significance, however, varies with the model and the period considered. Finally, untabulated results from cross-sectional level regressions indicate that most of the meeting characteristics are below average before the firm is subject to a long meeting but become either above or at the average after a "spike".

4) Synchronicity

We compute $SYNCH_{i,t}$, the R^2 of the following regression run on a calendar year basis: (4) $R_{i,d} = a_1 + b_1 \, TOPIX_d + b_2 \, INDRET_d + e_{i,d}$

where $R_{i,d}$ is the return for firm i on day d, $TOPIX_d$ is the return from the TOPIX index on

[18] The results for the other dependent variables in these alternative specifications are similar to the ones reported in panel B. When either $\Delta FOREIGN_{i,t}$, $\Delta FIN_{i,t}$ or $\Delta DAY_{i,t}$ is included as additional control variable in the third specification, $SPIKE_{i,t}$ becomes significantly positive in the *ΔLENGTH* regression. Other results are qualitatively similar. The results also hold (also in IV.3, IV.4 and IV.5).

day d, and $INDRET_d$ is the industry return day d as reported by PACAP.[19] We then use the three specifications described in IV.3. The results reported in Table 4 indicate that a long meetings lead to subsequent decrease in synchronicity. This is robust to including firms with multiple long meetings in the second specification (z-statistic = -11.45) or changing the definition of a long meeting to twice the average length (z-statistic= -8.91). Control variables suggest that synchronicity increases with size but declines with past return and losses. Results are qualitatively similar when the change in ownership by foreigners or by financial institutions or when ΔDAY are included in the third specification. Untabulated results from a cross-sectional level regression indicate that the synchronicity is higher than the average before a "spike" but becomes indistinguishable afterward.

5) Change in profitability.

We then consider the effect of a "spike" on profitability. To do so, we regress $ROA_{i,t}$ (or $\Delta ROA_{i,t+1}$) and $LOSS_{i,t}$ (or $\Delta LOSS_{i,t+1}$) using the three specifications previously described.[20] Results in Table 5 indicate that a "spike" is the precursor of an

[19] We delete firm-year observations where less than 50 data points are available to calculate the R^2.

[20] We also consider the log of the ratio of book-equity to market value. However, the results are

improvement in ROA (at least when the endogeneity is taken into account).[21] Perhaps surprisingly, a loss is more likely in the year following a "spike". These results, however, are not robust and the significance disappears when alternative specifications are used.[22] They might be explained by the fact that some costly restructuring occurs shortly after the meeting for some firms. In fact, $STRIKE_{i,t}$ becomes strongly significant across all specifications in the ΔROA regression when the change between t+1 and t+2 or t+2 and t+3 is considered (the z-statistic for $SPIKE_{i,t}$ is typically close to 7). In the $\Delta LOSS$ regression, $STRIKE_{i,t}$ is negative in later periods (although the significance disappears in some specifications).[23]

---

extremely unstable. In the second and third models that control for endogeneity, a "spike" is strongly associated with a decrease of the ratio in the three periods but a fixed effect regression gives the opposite result.

[21] Only two firms that had a long meeting and should otherwise be included in our sample were delisted in the subsequent year because of bankruptcy. This suggests that our results are not driven by survivor bias.

[22] In the ΔROA regressions, $SPIKE_{i,t}$ becomes negative when firms subject to multiple spikes are included or when a spike is defined as lasting more than twice the average for the firm. In the $\Delta LOSS$ regressions, the significance disappears when the full model is used in the first step, when change in asset (instead of the absolute value of the change) or $\Delta FIN_{i,t+1}$ are incorporated in the regression.

[23] Note, however, that the occurrence of loss is affected by both the economic performance of the firm and the conservatism of the accounting policy (in the sense of Basu [1997]). If the firm becomes more forthcoming with bad news, the likelihood of accounting loses may increase, even though the true

6) Change in shareholder composition.

Finally, we consider the impact on the shareholder composition. We run the 3 specifications previously described using the percentage of a given type of shareholders owning stocks in a given firm in a given year as dependent variables. Specifically, we consider $FIN_{i,t}$, $FOREIGN_{i,t}$, and $INDIV_{i,t}$. Results reported in Table 6 indicate that the percentage of shares held by financial institutions is decreasing while foreigners buy more stocks. This is also true when the changes between t+1 and t+2 or t+2 and t+3 are considered (the z-statistics are between -4.05 and -5.60 for ΔFIN, 2.36 and 5.27 for $\Delta FOREIGN$). Results for individual shareholders are less robust. Results in panel A indicate that individual shareholders buy stocks but the significance disappears in Panel B and C.[24]

7) The effect of meeting clustering.

---

profitability is increasing.

[24] The coefficient becomes negative in Panel C when the change in asset (instead of the absolute value of the change) is incorporated in the regression but significantly positive in both panel B and C when firms subject to multiple "spikes" are included or when "spikes" are defined as lasting more than twice the average length for the firm.

Overall, these empirical results suggest that long meetings and shareholder activism have positive effects. In fact, the policy of encouraging firms to hold their meetings on the same day may be counter-productive. Omura [1998] report that Japanese mutual fund managers consider that the concentration of meetings prevent them from effectively lobbying firms to improve corporate governance. Results from cross-sectional regressions reported in Table 7 indicate that firms that having their annual meeting on the same day as most of the other firms tend to have shorter meetings, with fewer shareholders attending and asking fewer questions. They also have a higher synchronicity, a lower ROA and a higher likelihood of suffering from losses. Finally, they are less able to attract foreign or individual shareholders. Results (not reported) are similar when a treatment effect model is used instead of cross-sectional regressions.[25] In addition, when we only use firms that hold their meetings outside the national meeting day, the results from Table 3 to 6 (Panel B or Column II) essentially carry on.[26] This

---

[25] $SPIKE_{i,t}$, $LOGASSET_{i,t}$, the overall market return and industry dummies are used as instrumental variables for $DAY_{i,t}$. $LOGCAP_{i,t}$, $ROA_{i,t}$, $LOSS_{i,t}$, $FIRMRET_{i,t-1}$ and $TIME_t$ are used as control variables in the second step.

[26] Compared to the cross-sectional regressions, the effect on the change in the percentage of shareholders attending meetings becomes significantly positive. The effect on the change in the number of questions asked at the meetings, in ROA (with a z-statistics of 1.85 in the full sample) and in the percentage of shares held by individuals (negative in the full sample but positive with the third specification) become

suggests that even when *sôkaiya* are more able to exercise their alleged capacity for disruption, no significant adverse effect is observed. This would be consistent with Japanese firms strategically using them. It also suggests that the policy of supporting the clustering of meetings should be reversed by the Japanese authorities.[27]

IV Conclusion.

Prior research on whether shareholders activists can force American managers to improve their behavior provides mixed results. In Japan, however, alternative channels for improvement (e.g. take-over, litigations) are not as effective as they are in the U.S. Thus, challenging the management during annual meetings may be the only option for disgruntled shareholders to exert pressure. Yet, the situation is complicated by the existence of corporate racketeers who disrupt these events in order to black-mail

---

insignificant. All other results are qualitatively similar. Note, however, that this specification controls for the fact that the "spike" is not random but treats the choice of the day for the meeting as exogenous.

[27] It is possible, however, that the *sôkaiya* have already taken control of all the firms they could. If this is true, they would not appear in our sample of "spikes" but still exert an influence. Thus, the recommendation on policy may be reversed if this is the case, and there is an exogenous departure from the equilibrium at some point in the future, and the clustering prevents the mafia to revert back to the current equilibrium and the cost of preventing this hypothetical return is less than the cost imposed by the restrictions of legitimate activism. However, we have no empirical support for such scenario.

management. Anecdotal evidence and results from surveys suggest that this form of corporate racketeering is prevalent. In response, the authorities have taken various measures to reduce the importance of these meetings in order to minimize the influence of organized crime. Yet, this policy also comes at the expense of legitimate shareholder activism. The goal of this paper is first to verify whether annual meetings are really a powerful tool to pressure management and then to examine whether this pressure has on average a positive or negative effect.

Empirical results indicate that there is no negative market reaction after a lengthy meeting, but that average returns in the year following the "spike" are significantly higher than in the preceding one. Subsequent meetings become more active: more questions are being asked, more shareholders attend, meetings are less likely to occur on the national meeting day and they may last longer. In addition, the synchronicity of the firm with the rest of the exchange declines, suggesting more firm specific information is incorporated. The ROA is improving. Finally, the percentage of shares held by foreign and individual investors increases, while the percentage held by financial institutions decreases. Overall, those results suggest that shareholder activists are able to capitalize on the embarrassment caused by long meetings to improve

governance. Even if *sôkaiy*a are an actual problem for some firms, Japanese managers appear to be using this threat as a way to reduce legitimate outside pressure. Results also suggests that the policy of concentrating annual meetings on one day has negative implications and should not be supported by the Japanese authorities, but that on the contrary, shareholder activism should be encouraged.

Bibliography.

Basu, Sudipto "The conservatism principle and the asymmetric timeliness of earnings.", *Journal of Accounting and Economics*, Vol. 24, 1997, pp. 3–35.

Durnev, Anthony, Randall Morck, Bernard Yeung, and Paul Zarowin, "Does greater Frim-specific Return Variation Mean More or Less Informed Stock Pricing?", *SSRN Working paper*, 2001.

Dyck, Alexander and Luigi Zingales, "The Corporate Governance Role of the Media", *NBER Working Paper*, 2003.

Hicks, John, "The Theory of Wages", London, Macmillan, 1963.

Kaplan, Steven N., "Top Executive Rewards and Firm Performance: A Comparison of Japan and the United States", *The Journal of Political Economy*, Vol. 102, No. 3, 1994, pp. 510-546.

Karpoff, Jonathan M., Paul H. Malatesta and Ralph A. Walking, "Corporate Governance and Shareholder Initiatives: Empirical Evidence", *Journal of Financial Economics*, Vol 42, 1996, pp365-395.

La Porta Rafael , Florencio Lopez-de-Silanes, Andrei Shleifer and Robert W. Vishny, "Legal Determinants of External Finance", *Journal of Finance*, Vol 52, 1997, pp1131-1150.

Maddala, G. S., Limited-Dependent and Qualitative Variables in Econometrics, New York, Cambridge University Press, 1983.

Maruko, Eiko, “Sokaiya and Japanese Corporations”, *Electronic Journal of Contemporary Japanese Studies*, Review 7, June 2002.

Ogino, Hiroshi “The Sokaiya’s Grip on Corporate Japan”, *Japan Quarterly*, July-September 1997, pp. 15-22.

Omura, K., M. Sutou, and M. Masuko, “Kikan Toushika ni yoru Kabunushi Akutibizumu (Activism) ha Koporeto Gabananansu (Corporate Governance) wo Kinou Saserunoka?” (Do shareholder activism by institutional investors make corporate governance work?), *Fainansu (Finance)*, Vol. 37, No. 6, 2001, pp. 43-57.

Prevost, Andrew K. and Ramesh P. Rao, “Of What Value are Shareholder Proposals Sponsored by Public Pension Funds?”, *Journal of Business*, Vol 73, No 2, pp177-204.

Ryall, Julian, “Japanese Gangsters Cash In on Taxpayers”, *South China Morning Post*, page A8, July 26, 2003.

Shleifer, Andrei and Robert W. Vishny, “A Survey of Corporate Governance”, *Journal of Finance*, Vol 52, 1997, pp 737-783.

Skeel, David A. Jr., “Shaming in Corporate Law”, *University of Pennsylvania Law Review*, Jun 2001, Vol. 149 Issue 6, p1811-1869.

Strickland, Deon, Kenneth W. Wiles and Marc Zenner, “A Requiem for the USA: Is Small Shareholder Monitoring Effective?”, *Journal of Financial Economics*, Vol 40, 1996, pp319-338.

Szymkowiak, Kenneth, "Sokaiya: Extortion, Protection, and the Japanese Corporation", East Gate Book, Nov 2001.

Wahal, Sunil, "Pension Fund Activism and Firm Performance", *Journal of Financial and Quantitative Analysis*, Vol 31, 1996, pp1-23.

West, Mark D., "Information, Institutions, and Extortion in Japan and the United States: Making Sense of *Sokaiya* Racketeers", *Northwestern University Law Review*, Vol 93, Issue 3, 1999, pp 767-817.

Wu, YiLin, "The Impact of Public Opinion on Board Structure Changes, Director Career Progression, and CEO Turnover: Evidence from CalPERS' Corporate Governance Program", *Journal of Corporate Finance*, Vol 184, 2003, p1-29.

Zingales, Luigi, "In Search of New Foundations", *Journal of Finance*, Vol 55, 2000, pp 1623-1653.

Table 1: Summary Statistics.

Variable	Length	Meeting Questions	Attendance	PERC
Mean	28.37	0.37	84.71	1.09
Standard Deviation	16.79	1.40	129.00	1.03
Median	25	0	58	0.80
Minimum	2	0	2	0.01
Maximum	321	25	2,508	20.97
N	12,708	12,708	12,708	12,708

Length is expressed in minutes. Meetings questions are expressed in number of questions. Attendance is the number of shareholders present at the annual meeting. PERC is the percentage of shareholders attending the meeting (multiplied by 100 to be expressed in %).

Table 2: Likelihood of having a "spike".

	$SPIKE_{i,t}$	**$SPIKE_{i,t}$**
INTERCEPT	-3.63 (-8.95)	-3.16 (-8.67)
$LOGASSET_{i,t}$	0.11 (2.57)	0.09 (3.31)
$ROA_{i,t}$	-1.81 (-7.26)	-1.93 (-4.66)
$LOSS_{i,t}$	0.12 (2.27)	0.17 (3.74)
$FIRMRET_{i,t-1}$	-0.19 (-1.19)	
$FOREIGN_{i,t}$	0.70 (1.61)	
$INDIV_{i,t}$	0.55 (1.68)	
$DAY_{i,t}$	-0.33 (-1.81)	
$TIME_t$	0.07 (3.98)	
$SECTION_{i,t}$	-0.07 (-0.96)	
Pseudo-R^2	5.44	2.00
N	9,553	9,553

Table 2 provides the results from Probit regressions with robust standard errors allowing for clustering of observations by year. Z-statistics are reported in brackets; standard errors are robust and allow for clustering of observations by year.

Table 3: Effect of a "spike" on future annual meetings.

Panel A: Fixed effect.

	$ATTEND_{i,t}$	**$PERC_{i,t}$**	**$MEETQ_{i,t}$**	**$LENGTH_{i,t}$**	**$DAY_{i,t}$**
INTERCEPT	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
$SPIKE_{i,t}$	26.20 (4.25)	0.08 (2.32)	2.34 (13.94)	38.46 (9.86)	-0.04 (-1.87)
$AFTER_{i,t}$	17.00 (2.77)	0.01 (0.37)	0.38 (3.61)	-1.05 (-0.61)	0.03 (0.69)
$LOGCAP_{i,t}$	8.95 (1.72)	0.17 (4.94)	-0.16 (-1.45)	-0.36 (-0.30)	-0.01 (-1.20)
$ROA_{i,t}$	-1.35 (-0.28)	0.08 (0.43)	0.09 (0.22)	6.07 (0.89)	-0.12 (-0.70)
$LOSS_{i,t}$	3.73 (2.64)	0.03 (1.42)	0.10 (1.79)	2.10 (2.19)	-0.01 (-0.61)
$FIRMRET_{i,t-1}$	-4.62 (-1.40)	-0.09 (-4.30)	0.14 (1.61)	-0.29 (-0.28)	0.01 (0.38)
R^2	3.90	1.93	35.21	48.79	1.65
N	3,314	3,314	3,314	3,314	3,314

Panel B: Difference

	$\Delta ATTEND_{i,t+1}$	$\Delta PERC_{i,t+1}$	$\Delta MEETQ_{i,t+1}$	$\Delta LENGTH_{i,t+1}$	$\Delta DAY_{i,t+1}$
INTER.	-3.69 (-0.31)	-0.31 (-1.70)	-0.74 (0.04)	3.38 (1.23)	0.01 (0.40)
$SPIKE_{i,t}$	89.04 (3.51)	0.90 (2.15)	1.75 (2.26)	9.02 (0.84)	-0.38 (-3.10)
$TIME_t$	-0.10 (-0.65)	-0.01 (-2.39)	0.04 (8.15)	0.63 (10.90)	-0.01 (-11.25)
$LAMBDA_{i,t}$	-31.12 (-3.04)	-0.29 (-1.74)	-0.72 (-2.29)	-4.16 (-0.96)	0.15 (3.02)
N	9,549	9,548	9,553	9,553	9,553

Panel C: Difference

	$\Delta ATTEND_{i,t+1}$	$\Delta PERC_{i,t+1}$	$\Delta MEETQ_{i,t+1}$	$\Delta LENGTH_{i,t+1}$	$\Delta DAY_{i,t+1}$
INTER.	-0.11 (-0.17)	-0.03 (-3.28)	0.05 (2.73)	1.22 (3.48)	0.00 (0.92)
$SPIKE_{i,t}$	83.28 (3.22)	0.83 (2.04)	2.28 (3.05)	25.52 (2.55)	-0.43 (-3.63)
$\Delta LOGCAP_{i,t+1}$	3.23 (3.51)	0.13 (9.08)	-0.01 (-0.53)	1.23 (3.48)	0.01 (1.33)
$\Delta ROA_{i,t+1}$	-12.25 (-1.82)	-0.11 (-1.06)	-0.10 (-0.50)	-4.62 (-1.78)	-0.09 (-2.85)
$\Delta LOSS_{i,t+1}$	1.31 (1.49)	0.00 (0.20)	0.04 (1.37)	1.64 (4.86)	-0.01 (-2.41)
$\Delta FIMRET_{i,t}$	-2.16 (-3.25)	-0.06 (-6.51)	-0.02 (-0.99)	-1.88 (-7.37)	-0.01 (-3.06)
$\Delta SHR_{i,t+1}$	0.57 (1.82)	-0.09 (-19.21)	0.01 (0.55)	-0.03 (-0.25)	-0.00 (-2.79)
$\Delta ASSET_{i,t+1}$	4.98 (1.58)	0.06 (1.19)	0.11 (1.22)	-1.68 (-1.39)	0.00 (0.13)
$LAMBDA_{i,t}$	-28.59 (-2.74)	-0.00 (-1.62)	-0.91 (-3.03)	-10.53 (-2.60)	0.17 (3.48)
N	9,549	9,548	9,553	9,553	9,553

T-statistics (panel A) and z-statistics (panel B and C) are reported in brackets. Standard errors in panel A are robust and allow for clustering of observations by year. Standard errors in panel B and C are corrected according to Maddala [1983]. Results for the industries dummies are omitted from panel B. Coefficients for *ΔPERC* are multiplied by 100 for expositional clarity.

Table 4: analysis of synchronicity.

	$SYNCH_{i,t}$	$\Delta SYNCH_{i,t+1}$	$\Delta SYNCH_{i,t+1}$
INTERCEPT	0.00 (0.00)	-2.15 (-0.85)	-1.40 (-5.74)
$SPIKE_{i,t}$	-3.95 (-4.26)	-50.75 (-5.78)	-57.22 (-6.33)
$AFTER_{i,t}$	-3.59 (-3.24)		
$TIME_t$		-0.74 (-13.87)	
$LOGCAP_{i,t}$ / $\Delta LOGCAP_{i,t+1}$	6.01 (3.98)		3.07 (9.12)
$ROA_{i,t}$ / $\Delta ROA_{i,t+1}$	-0.03 (-0.01)		1.93 (0.80)
$LOSS_{i,t}$ / $\Delta LOSSi_{,t+1}$	-2.76 (-2.96)		-0.89 (-2.77)
$FIRMRET_{i,t-1}$ / $\Delta FIRMRET_{i,t}$	-5.28 (-3.98)		-4.09 (-16.81)
$\Delta SHR_{i,t+1}$			0.25 (2.19)
$\Delta ASSET_{i,t+1}$			5.24 (4.55)
$LAMBDA_{i,t}$		20.08 (5.67)	22.53 (6.19)
R^2	19.90		
N	3,314	9,553	9,553

T-statistics (Column I) and z-statistics (column II and III) are reported in brackets. Standard errors in column I are robust and allow for clustering of observations by year. Standard errors in column II and III are corrected according to Maddala [1983]. Results for the industries dummies are omitted from column II. Coefficients are multiplied by 100 for expositional clarity.

Table 5: analysis of profitability.

Panel A: Return on Assets.

	$\mathbf{ROA_{i,t}}$	$\mathbf{\Delta ROA_{i,t+1}}$	$\mathbf{\Delta ROA_{i,t+1}}$
INTERCEPT	0.00 (0.00)	1.43 (-1.17)	-0.52 (-4.59)
$SPIKE_{i,t}$	-1.49 (-4.66)	17.12 (4.01)	19.59 (4.54)
$AFTER_{i,t}$	-0.50 (-1.01)		
$TIME_t$		-0.00 (-0.17)	
$LOGCAP_{i,t}$ / $\Delta LOGCAP_{i,t+1}$	1.71 (3.83)		1.45 (11.72)
$\Delta SHR_{i,t+1}$			0.03 (0.48)
$\Delta ASSET_{i,t+1}$			-0.03 (-5.27)
$LAMBDA_{i,t}$		-7.09 (-4.13)	-8.02 (-4.62)
R^2	3.21		
N	3,314	9,553	9,553

Panel B: Likelihood of losses.

	$LOSS_{i,t}$	**$\Delta LOSS_{i,t+1}$**	**$\Delta LOSS_{i,t+1}$**
INTERCEPT	0.00 (0.00)	-0.89 (-0.09)	0.89 (1.02)
$SPIKE_{i,t}$	6.78 (4.11)	82.27 (2.34)	69.85 (1.99)
$AFTER_{i,t}$	4.46 (2.42)		
$TIME_t$		0.53 (2.66)	
$LOGCAP_{i,t}$ / $\Delta LOGCAP_{i,t+1}$	-17.33 (-5.50)		-15.39 (-16.65)
$\Delta SHR_{i,t+1}$			0.04 (0.10)
$\Delta ASSET_{i,t+1}$			12.38 (3.01)
$LAMBDA_{i,t}$		-32.43 (-2.28)	-27.80 (-1.96)
R^2	8.00		
N	3,314	9,553	9,553

T-statistics (Column I) and z-statistics (column II and III) are reported in brackets. Standard errors column I are robust and allow for clustering of observations by year. Standard errors in column II and III are corrected according to Maddala [1983]. Results for the industries dummies are omitted from column II. Coefficients are multiplied by 100 for expositional clarity.

Table 6: Effect on shareholder composition.

Panel A: Fixed Effect.

	$FIN_{i,t}$	**$FOREIGN_{i,t}$**	**$INDIV_{i,t}$**
INTERCEPT	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
$SPIKE_{i,t}$	-1.80 (-4.25)	2.07 (5.41)	0.79 (1.91)
$AFTER_{i,t}$	-2.58 (-3.34)	3.02 (5.91)	0.64 (1.08)
$LOGCAP_{i,t}$	5.08 (11.06)	2.07 (3.02)	-7.21 (-12.58)
$ROA_{i,t}$	-1.84 (-1.23)	-1.22 (-0.60)	-9.75 (-1.36)
$LOSS_{i,t}$	-0.43 (-1.51)	0.27 (1.29)	-0.54 (-1.27)
$FIRMRET_{i,t-1}$	-2.46 (-4.40)	-0.08 (-0.18)	2.99 (4.97)
R^2	41.09	7.31	40.52
N	3,314	3,314	3,314

Panel B: Difference

	$\Delta FIN_{i,t+1}$	$\Delta FOREIGN_{i,t+1}$	$\Delta INDIV_{i,t+1}$
INTERCEPT	3.95 (3.10)	3.90 (4.06)	-2.89 (-2.80)
$SPIKE_{i,t}$	-38.53 (-8.69)	21.06 (6.30)	-1.67 (-0.41)
$TIME_t$	-0.36 (-13.57)	-0.16 (-7.79)	0.38 (17.76)
$LAMBDA_{i,t}$	15.21 (8.52)	-0.09 (-6.39)	0.76 (0.47)
N	9,553	9,553	9,553

Panel C: Difference.

	$\Delta FIN_{i,t+1}$	**$\Delta FOREIGN_{i,t+1}$**	**$\Delta INDIV_{i,t+1}$**
INTERCEPT	-0.15 (-1.30)	0.46 (5.36)	0.87 (9.36)
$SPIKE_{i,t}$	-38.29 (-8.77)	20.00 (6.24)	1.01 (0.27)
$\Delta LOGCAP_{i,t+1}$	3.06 (18.80)	2.80 (23.37)	-4.92 (-39.93)
$\Delta ROA_{i,t+1}$	0.50 (0.43)	-2.18 (-2.53)	-8.94 (-9.63)
$\Delta LOSS_{i,t+1}$	-0.30 (-1.94)	-0.08 (-0.66)	-0.17 (-1.39)
$\Delta FIRMRET_{i,t}$	-1.32 (-11.25)	-0.91 (-10.53)	1.93 (21.78)
$\Delta SHR_{i,t+1}$	0.11 (1.90)	-0.02 (-0.56)	-0.03 (-0.73)
$\Delta ASSET_{i,t+1}$	0.08 (0.15)	1.64 (4.01)	-1.90 (-4.47)
$LAMBDA_{i,t}$	15.07 (8.57)	-8.17 (-6.32)	-0.32 (-0.21)
N	9,553	9,553	9,553

All coefficients are multiplied by 1000 for expositional clarity. T-statistics (panel A) and z-statistics (panel B and C) are reported in brackets. Standard errors in panel A are robust and allow for clustering of observations by year. Standard errors in panel B and C are corrected according to Maddala [1983]. Results for the industries dummies are omitted from panel B. Coefficients are multiplied by 100 for expositional clarity.

Table 7: Cross-sectional effect of $DAY_{i,t}$

	$LENGTH_{i,t}$	**$ATTEND_{i,t}$**	**$PERC_{i,t}$**	**$MEETQ_{i,t}$**
INTERCEPT	-12.27 (-6.90)	-378.50 (-20.80)	3.69 (28.18)	-2.29 (-12.16)
$DAY_{i,t}$	-2.17 (-4.12)	-16.20 (-5.38)	-0.47 (-12.33)	-0.20 (-2.55)
$LOGCAP_{i,t}$	3.94 (21.33)	44.46 (35.48)	-0.20 (-15.73)	0.26 (9.93)
$ROA_{i,t}$	-25.37 (-6.19)	-231.09 (-4.75)	1.49 (6.84)	-1.83 (-6.94)
$LOSS_{i,t}$	1.94 (2.61)	3.46 (0.99)	-0.29 (-12.72)	0.13 (2.53)
$FIRMRET_{i,t-1}$	-2.12 (-1.66)	-19.05 (-2.90)	0.09 (2.58)	-0.08 (-1.00)
R^2	10.49	22.94	12.51	6.84
N	12,708	12,708	12,708	12,708

	$SYNCH_{i,t}$	**$INDIV_{i,t}$**	**$FOREIGN_{i,t}$**
INTERCEPT	-0.66 (-11.42)	73.16 (22.93)	-19.26 (-9.77)
$DAY_{i,t}$	0.04 (11.16)	-0.47 (-3.07)	-1.59 (-10.81)
$LOGCAPi_{,t}$	0.08 (12.89)	-4.13 (-16.58)	2.43 (10.64)
$ROA_{i,t}$	-0.18 (-2.42)	-14.79 (-5.00)	4.09 (1.20)
$LOSS_{i,t}$	0.01 (1.49)	1.32 (2.72)	0.46 (1.71)
$FIRMRET_{i,t-1}$	-0.05 (-3.63)	1.98 (2.39)	0.26 (0.44)
R^2	46.76	22.27	20.63
N	12,708	12,708	12,708

	$ROA_{i,t}$	**$LOSS_{i,t}$**
INTERCEPT	-6.79 (-8.52)	80.40 (16.38)
$DAY_{i,t}$	-0.62 (-2.66)	3.70 (2.56)
$LOGCAP_{i,t}$	0.77 (11.58)	-6.29 (-15.92)
R^2	5.32	6.34
N	12,708	12,708

Z-statistics are reported in brackets; all standard errors are robust and allow for clustering of observations by year. Coefficient for *PERC, INDIV, FOREIGN, ROA* and *LOSS* have been multiplied by 100 for expositional clarity.