Center for Economic Institutions

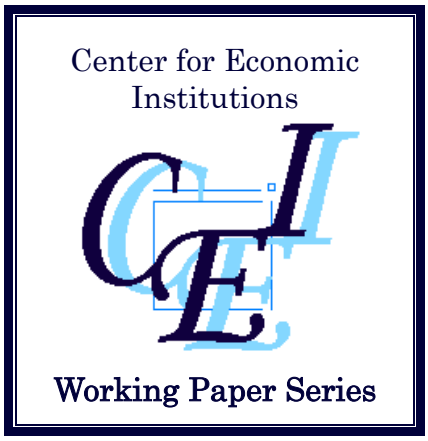
Working Paper Series

No. 2009-1

"Creditor-Focused Corporate Governance: Evidence from Mergers and Acquisitions in Japan"

Vikas Mehrotra, Dimitri van Schaik, Jaap Spronk
and Onno Steenbeek

August 2009



Institute of Economic Research
Hitotsubashi University
2-1 Naka, Kunitachi, Tokyo, 186-8603 JAPAN
Tel: +81-42-580-8405
Fax: +81-42-580-8333

Creditor-Focused Corporate Governance:
Evidence from Mergers and Acquisitions in Japan

Vikas Mehrotra
Associate Professor of Finance
University of Alberta School of Business
Alberta, Canada
Email: vmehrotr@bus.ualberta.ca
Work: +1-780-492-2457

Dimitri van Schaik
CDI Japan Insite
Amsterdam, The Netherlands
Email: vanschaik_d@hotmail.com

Jaap Spronk
Professor of Financial Management Science
Rotterdam School of Management
Erasmus University Rotterdam
Email: jspronk@rsm.nl

Onno Steenbeek
Department of Finance
Erasmus School of Economics
Rotterdam, The Netherlands
Email: steenbeek@ese.eur.nl
Work: +31-10-4081285

JEL classification: G30; G34

Keywords: Japanese mergers; Japanese corporate governance

Creditor-Focused Corporate Governance: Evidence from Mergers and Acquisitions in Japan

Abstract

Mergers in Japan have the dubious distinction of *not* creating wealth for shareholders of target firms, in sharp contrast to much of the rest of the world. Using a sample of 91 mergers from 1982 through 2003 we document several distinctive features of the merger market in Japan: mergers tend to be countercyclical and often orchestrated by a common main bank. Overall our results point to a market for corporate control that is distinctly less shareholder-focused than that in the U.S., and one where creditors play an important, perhaps dominant, role in corporate governance.

JEL classification: G30; G34

Keywords: Japanese mergers; Japanese corporate governance

1 Introduction

Mergers in Japan stand out in *not* creating wealth for the selling firm's shareholders. Wealth gains in the immediate window surrounding merger announcements are insignificant for target firms in Japan, indeed they are also insignificant for bidders, whereas for much of the rest of the world target shareholders enjoy significant valuation increases, and bidding shareholders appear to break even, give or take.[1] In this paper we analyze why Japanese mergers fail to create wealth for either of the merging firms, and what role creditors might play in this process. Specifically, we examine the role played by the main bank in merger activity in Japan, and address the possibility that main bank objectives – such as rescue motivated mergers – are associated with the lackluster wealth effects documented for Japanese mergers. More generally, our study offers lessons from relying on creditor-centric corporate governance models.

Given recent turmoil in the financial sector, with its epicenter being Wall Street firms, interest in alternative corporate governance forms is increasing. A natural question is whether creditor-centric corporate governance norms, as opposed to the U.S. style shareholder focused governance practices, are better suited to protect the small investor on the premise that banks are superior monitors of management and, where they have leverage over borrowers, can exercise this power judiciously. The Japanese main bank system is an excellent setting to examine this claim. The main bank system is described elsewhere in detail (see for e.g. Morck and Nakamura, 1999) – its chief features are the presence of a main bank in the middle of a business group linked to its members via cross shareholdings (so called *financial keiretsu*). The main bank is often the chief lender to group firms, and though its equity stake in group firms is generally capped at 5%, the main bank has traditionally exercised considerable control over group firms, particularly in times

[1] For the European merger experience, see Martynova and Renneboog (2006); for the U.S., see Jensen and Ruback (1983); Jarrell and Poulsen (1989); and Andrade and Stafford (2001); for Japan, see review in this paper in section 2.

of financial difficulty.[2]

The notion that Japanese corporate governance caters more to creditors rather than to equity holders is not new. For instance, Morck and Nakamura (1999) show that main banks act first and foremost in the interest of creditors; when shareholder interests are attended to, it is done as part of a larger stakeholder group to which the main bank owes uniform allegiance. Bankers are appointed to the board of directors of companies with cash flow problems, not to companies with sub-par stock price performance. For firms that share a common main bank (members of a common financial keiretsu), Morck and Nakamura conclude that the main bank frequently "props up" financially weak companies. Their evidence supports the "bank power hypothesis" that maintains that corporate governance in Japan pays scant heed to residual claimant interests, and is largely motivated by protecting the contractual fixed claims of creditors.

To be sure, the creditor-centric governance view of Japan is not without detractors. For e.g., Kang, Shivdasani and Yamada (2000) investigate bidder returns in mergers with 108 unlisted targets and 46 listed targets during the period 1973-1993. They find significant positive abnormal returns for bidder firms affiliated with a main bank and conclude that the main bank enhances shareholder wealth. More recent research, although not primarily focused on the role of the main bank, presents somewhat different results on merger motives. Arikawa and Miyajima (2007) investigate the period from 1991 to 2004 and find that mergers during this period in Japan were caused by economic shocks. They demonstrate that during this merger wave, the role of mergers was both reactionary and expansionary; industries with negative shocks (negative changes to growth opportunities and decreasing sales) experienced larger M&A deals, but the same was also

[2] See, for e.g., Aoki (1990) and Sheard (1989), who provide evidence that Japanese main banks discipline poorly performing managers. Kang and Shivdasani (1996) document how main banks appoint directors to group firms' boards when the borrower firm experiences financial difficulty.

true of industries experiencing positive shocks. They find that target companies tend to have lower growth opportunities and high leverage, which suggests that M&A may have been used as a means of corporate restructuring during this period. Kruse, Park, Park and Suzuki (2007) investigate 69 mergers of companies listed on the Tokyo Stock Exchange during 1969 to 1999. They find that operating performance improves after the merger, especially for cross-industry mergers.

Lin, Michayluk, Oppenheimer and Reid (2008) examine whether bidder companies in Japan are motivated by hubris. They find that high (low) hubris bidder companies have negative (positive) abnormal returns and argue that this is largely consistent with the hubris hypothesis, which argues that over-confident managers engage in value-destroying M&A activities. In their investigation of sub-sample periods they find that hubris is more likely to occur during the period 1999-2003 than 1989-1998.

Our sample contains 91 mergers between listed companies in the period 1982-2003. We examine whether the main bank has a role in the economics of merger activity in Japan, especially in cases where one of the merging firms is financially weak. We argue that a main bank, holding primarily fixed contractual claims on the borrower, is more likely to get involved in mergers when one of the merging companies is in financial distress, or, more generally, economic downturns. In the former case, when borrowers encounter financial difficulties, the main bank is more likely to propose a rescue merger with a financially strong client as part of its restructuring plan.

Prior research on Japanese mergers has examined the influence of the main bank by primarily focusing on the bidder company. This is partly driven by the nature of mergers in Japan, where

many target firms are unlisted entities. To be sure, studies such as Kang et al. (2000) have looked at target firms, but their focus remains the bidder firm – they find that bidders are unlikely to overpay for targets as they can take advantage of the information possessed by the common main bank.

Our analysis includes target firms, particularly those that are likely to impair the collateral of loans held by the main bank of the target companies. When faced with a delinquent borrower, the main bank – to the extent it has the power to do so – is likely to look for rescue candidates in the guise of financially sound bidders who can be coaxed into merging with the financially weak target firms. Borrowing from Morck and Nakamura (1999), we label the influential role of banks in Japanese corporate governance the "bank power hypothesis". A prediction of the bank power hypothesis is that the presence of a common main bank is more likely to be associated with mergers involving a financially weak firm with a financially strong firm. A corollary of the bank power hypothesis is that main banks are less likely to get involved in mergers where both the target and the bidder firms are in financial distress.

In our examination of merger related wealth effects for shareholders, we pay special attention to specific macro-economic conditions, such as the phase of the business cycle and changes in the external regulatory structure. Specifically, we examine the following sub-periods: (i) 1982-1989 ("1980s"), (ii) 1990-1996 ("Early 90s"), and (iii) 1997-2003 ("Late 90s"). The 1980s are characterized by an average annual GNP growth of 5.5% and represent an era when companies made substantial investments in capital assets and real estate. The investment was associated with significant price appreciation both in the stock market and in real estate in the late 1980s. As is well known, the stock market bubble burst at the end of 1989 and the real estate bubble soon thereafter. This crash of both the stock market and real estate markets marks the end of our

first sub-period. During the second period, the Early 90s, economic growth slowed down considerably, with GNP-growth dropping to an annual average of 1.5%. A large number of companies faced financial difficulties and several large banks coped with non-performing loans. A problem during this period was the unwillingness of banks to come to terms with the NPL crisis, perhaps in the expectations that when the financial and real estate markets rebound, the banks' balance sheet would recover.

The third sub-period, the Late 90s, is typified by the aggravation of the financial difficulties and witnessed various amendments to laws related to M&A and ownership, such as the lifting of the ban on pure holding companies. In 1997 the severity of the non-performing loan problems of Japanese financial institutions became evident with the bankruptcies of the Hokkaido Takushoku Bank and Yamaichi Securities Company, and the Long-Term Credit Bank of Japan and Nippon Credit Bank in 1998 and 1999. Consolidated accounting and reporting requirement of investments at market value put pressure on companies to divest their shareholdings in other companies and banks (see, for instance, Miyajima and Fumiaki, 2005). The unwinding of shares by companies, combined with the banking crisis in 1997, subsequently resulted in banks selling their cross-shareholdings in companies (Scher 2001; Miyajima and Fumiaki 2005).

Overall, our findings are consistent with the view that mergers in Japan are driven less by efficiency gains, and indeed are largely a means to protect the fixed contractual claims of creditors. This view of a creditor-focused governance model is consistent with the evidence and inferences in Morck and Nakamura (1999), and calls into question the broader appeal of governance models that forsake explicit references to shareholder welfare in favor of other stakeholder groups.

The rest of this paper is organized as follows. In section 2, we provide a brief survey of recent evidence on merger activity in Japan. In section 3, we describe our data collection process and sources. Section 4 contains a description of the asset characteristics for our sample firms. Our main results are provided in section 5, and conclusions in section 6.

2 Previous research

In this section we review the literature on the time series properties of mergers in general, and more specifically, on the empirical evidence surrounding the wealth effects of Japanese mergers. We start first with examining why mergers tend to take place in waves. The neoclassical view is that mergers are response to resource allocation questions raised in times of technological and regulatory changes. An alternative view treats mergers as a by-product of stock market over-valuations that permit bidders to expand their control via the use of over-valued stocks as currencies in the merger market. In section 2.2, we summarize the evidence on acquiring and target firm returns in Japan. This evidence essentially shows that over short windows surrounding the merger announcement, both bidders and targets in Japan experience statistically and economically insignificant wealth effects.

2.1 Merger waves

Shleifer and Vishny (2003) argue that merger waves coincide with high stock market valuation because overvalued stock will be used to acquire the assets of undervalued or less overvalued companies. According to Mitchell and Mulherin (1996), mergers result from shocks to an industry's economic, technological or regulatory environment. After an industrial shock takes place, assets will be reallocated as quickly and efficiently as possible in the form of M&A activity.

Harford (2005) adds that sufficient capital liquidity is necessary to accommodate reallocation of assets. Andrade and Stafford (2004) make a distinction between the "expansionary" and "contractionary" role of mergers, the former increases capital stock of a company, similar to an internal investment, and the latter facilitates consolidation and reduction of a company's asset base. According to the expansion hypothesis, mergers are a means to respond to increasing economic growth and a positive business cycle; a merger increases a company's market power or efficiency and provides possibilities to exploit the market. According to the retardation hypothesis, the contractionary role of mergers is that a company can preserve profits when economic growth is falling. Mergers occur when the overall business cycle is negative, demand falls or competition is rising. A negative business cycle can cause financial difficulties for companies, resulting in corporate bankruptcies or rescue mergers of failing companies (Nelson 1959).

Merger waves are driven by specific factors that influence total M&A activity, whereas merger motives concern individual M&A cases. The synergy motive implies that synergy gains are realized when two companies are combined (Berkovitch and Narayanan 1993; Bradley et al. 1988; Goergen and Renneboog 2003). The hubris motive argues that a bidder company's management overestimates obtainable synergies and therefore overpays for the target company (Berkovitch and Narayanan 1993; Roll 1986; Malmendier and Tate 2003). A rescue merger can be seen as an alternative to bankruptcy for one of the merging companies, which, in general, is the target company (Weston and Mansinghka 1971; Melicher and Rush 1974).

2.2 Japanese mergers – the empirical evidence

Previous research on Japanese domestic mergers shows that bidder companies have a positive stock price effect up to the announcement date of the merger, but this effect turns negative

thereafter. Similar results are found for target companies, the abnormal returns before the announcement date are only slightly more positive than bidder companies.

2.2.1 Bidder returns surrounding merger announcements

Pettway and Yamada (1986) examine 16 mergers in the period 1977 to 1984 and find positive abnormal returns around the announcement date for bidder companies. The abnormal return for day [-1] is 0.60% and statistically significant at conventional levels, and the Cumulative Abnormal Return (CAR) for the 2-day period [-1,0] is 0.70%, but statistically insignificant. Ito (1989) investigates 31 mergers between listed companies in the period 1971 to 1987, covering the sampling period of Pettway and Yamada. He finds a significant positive CAR of 1.15% for the two-day window spanning [-1,0]. Although insignificant, the CAR turns negative when the return measurement around the announcement date is expanded. The negative CARs for the expanded windows is confirmed by Komoto (2002) using a sample of 88 mergers in Japan from 1980 to 1999. Komoto finds a negative CAR of -2.1% for the 11-day window spanning [-5,+5]. Yeh and Hoshino (2002) investigate 89 mergers in the period 1981-98 and find a significant negative CAR of -1.01% for the 3-day window [-1, 1]. Yeh (2007) examines both mergers and tender offers during the period 1981 to 1998 and finds a significant positive CAR of 1.44% for the event window [-10,1]. However, the 3-day CAR over the window [-1, 1] is not significant. Kang, Shivdasani and Yamada (2000) investigate bidder returns over the period 1977 to 1993 and report a two-day CAR of 1.17% for the window [-1,0].

2.2.2 Target firm returns surrounding merger announcements

For target firms, Pettway and Yamada (1986) find a significant positive abnormal return of 1.57% on day -1, and a significant negative abnormal return of -1.4% on day +1, where day 0 is the merger announcement date. The resulting CARs for the periods [-1,0] and [-1,+1] are 1.33%

and –0.07%. Returns over longer interval are also negative – for e.g., the CAR over days [-5,+5] is –0.86%. Ito (1989) finds similar results using a sample of 31 target firms; the CAR for day [-1,0] is 1.26%, but turns negative for the event windows [-1,+1] and [-5,+5] at -2.85% and -1.75% respectively. Komoto (2002) finds a negative CAR of -4.9% for target firms for the period [-5,+5].

Overall, the evidence on merger returns in Japan suggests the following stylized facts. First, pre-announcement returns for both bidders and target firms appear to be positive, though small in magnitude, and certainly smaller for target firms when compared to similar evidence in the U.S. Second, when the event window is expanded to include post-announcement days, the earlier price run-up seems to disappear. And finally, target returns are conspicuously smaller over all return windows relative to their U.S. counterparts. A fourth noteworthy feature of this literature is the relative paucity of evidence on target firms, perhaps because many target firms in Japan are unlisted companies.

3 Data

We examine domestic mergers between non-financial companies listed on the First or the Second Section of the Tokyo Stock Exchange (TSE) in a 22-year period from January 1982 through December 2003. We start by collecting information on all companies that were delisted from TSE during the sample period. Next, we investigate whether the delisted companies were engaged in a merger by examining all press articles related to mergers in the period 1982 to 2003. The press articles are from the *Nihon Keizai Shimbun* (Japan Economic Journal), *Nikkei Sangyo Shimbun* (Industrial Journal), *Nikkei Ryutuu Shimbun* (Distribution Journal), and *Nikkei Kinyuu*

Shimbun (Finance Journal). If the company was engaged in a merger, we collect the initial public Announcement Date (AD) and the Effective Date (ED) of the merger from the press articles. The AD is defined as the day that the merger announcement appears in the press for the first time. For the sample of merging firms, we obtain accounting data from *Nikkei Needs* (Nikkei Economic Electronic Databank System) and stock price data from *Factset*.

Our final sample contains 91 mergers over the period 1982-2003. Figure 2 and Table 1 shows the distribution of mergers over the sampling period. We pay special attention to three sub-periods in the sample period. Nineteen mergers of our total sample occur in the 1980s, 21 in the Early 90s, and 51 in the Late 90s. The last period, spanning 1998-2003, accounts for more than half the total mergers in our 22-year sample. We also note a special characteristic of mergers during our sampling period – merger activity appears to be counter-cyclical to the stock market valuation as measured by the Nikkei Index.

Following Kang et al. (2000), we use the publication *Kigyo keiretsu Soran* for the year of the merger announcement to define a main bank as the company's most important lender while also belonging to the its largest five shareholders. In Table 1 we report that 67% of target firms and 65% of bidder firms have a main bank relationship. This compares with 72% of firms having a main bank relationship across all Japanese firms listed on the first section of the Tokyo Stock Exchange in 1980 (Sheard 1989). In 31% of mergers the target and bidder firms have a common main bank. Mergers in which the merging companies have a main bank are concentrated in the Early 90s – in this period more than half of all mergers are between companies with a common main bank. By contrast, in the 1980s and Late 90s, mergers involving firms with a common main bank are 29% and 22% of all mergers in these periods. Recall that the Early 90s were a period of slow to stagnant economic growth in Japan, and, as we show later, average profitability was at its

lowest during this period.

It appears that the frequency of mergers involving firms in the same keiretsu more than doubles after the asset pricing bubble of the late 1980s imploded. Same keiretsu mergers represent 26% of all mergers in the 1980s, but increased to 58% of all mergers in the 1990s. Again, this is consistent with the notion that member firms, likely at the behest of keiretsu main banks, step in to engineer rescue mergers when economic growth stagnates.

Based on the Nikkei Needs industry classification we investigate whether the mergers are within an industry (intra-industry), or whether they involve firms from different industries (inter-industry). Whereas intra-industry mergers can be thought of as efficiency motivated, inter-industry mergers are more likely motivated by hubris. In the 1980s inter-industry mergers accounted for 37% of all mergers. This fraction declined to 24% in the Early 90s and to 10% in the Late 90s. With the worsening economic outlook in the 1990s, the declining incidence of cross-industry mergers indicates that mergers during this latter period were driven primarily by efficiency and cost considerations, and not by managerial empire building or hubris considerations. This change in emphasis is also coincident with an increased presence of main banks in mergers in the 1990s.

We define financial distress following Hoshi, Kashyap and Scharfstein (1990) and select companies that experience a cash flow crisis: companies are in financial distress when interest expense exceeds operating income, that is, when the interest coverage ratio is lower than 1, in the last fiscal year prior to the merger, or in two of the four years before the merger. Mergers involving a distressed bidder are most frequent in the 1980s counting for 58% of all mergers during this period. Mergers involving a financially distressed target peak in the Early 90s (67%

of all mergers). Mergers involving two distressed companies are most frequent in the 1980s at 47%. Overall, one third of the mergers involves a distressed bidder and in half of all merger cases a distressed target is involved. The percentage of mergers involving two distressed companies is highest in the 1980s and lowest in the Late 90s. These statistics are consistent with the idea that main banks, to the extent they can influence merger decisions, would benefit less if both merging parties were financially weak.

Table 2 combines our findings on financial distress of the merging companies and the presence of a same main bank by period. We first note that across our entire sample, 42% (27%) of all mergers involve strong (weak) bidders and targets. The remaining 31% of deals involve one weak and one strong firm in the merger. The bank power hypothesis makes three predictions here. First, the fraction of deals involving mergers of a weak and a strong firm ought to increase when both the merging firms share a common main bank. Second, this incidence ought to further increase when the economic situation worsens. And finally, main bank instigated mergers are less likely to involve two weak firms.

Across the entire sampling period, we find that 40% of mergers involve one weak and one strong firm when a common main bank is involved – this fraction declines to 27% when there is no common main bank. This fraction peaks in the Early 90s at 54% for mergers involving common main banks, and 30% for mergers not involving common main banks. This is consistent with our hypothesis that main bank interests are best served by combining a weak borrower with a strong one, and that the need to do so is more pressing in the difficult economic times of the Early 1990s spanning 1990 through 1997. In the Late 1990s we see a similar pattern as well, though we note that many of the mergers in this period may have been driven by strategic motives.

Overall, 27% of all mergers involve weak bidders and weak targets – tellingly, this fraction declines to 18% of all mergers where a common main bank is involved, and increases to 32% where no common main bank is found. Overall, these statistics are consistent with our hypothesis that banks have little to gain from a merger of two weak firms, and that they are more likely to get involved when the external economic environment worsens

4 Sample characteristics

Table 3 describes the accounting and market characteristics of the target and bidder firms in the sample. Target firms have a mean (median) value of book assets equal to 151 billion yen (51 billion yen). The corresponding mean (median) value of assets for bidders is 690 billion yen (199 billion yen). The mean size of target firms relative to bidders was 14% in the 1980s, 28% in the Early 1990s, and 42% in the Late 1990s. The increase in the size of the acquired firms is consistent with the increased emphasis on scale motivated mergers in the 1990s, as opposed to the acquisition of unrelated assets in the 1980s.

Turning to the importance of the main bank, we find that main bank loans accounted for more than 5% of the median firm's debt for target firms in the 1980s, and fell to less almost half this fraction in the 1990s. A similar decline in the fraction of debt represented by main banks is found for bidder firms. The declining importance of main bank loans is consistent with anecdotal evidence on the status of main banks in Japan. Nevertheless, there remains considerable variation in the role played by main banks across our sample, as is evident by examining the mean ratios for main bank debt to total debt. The mean values are considerably higher than the median values, suggesting a skewed distribution where some firms are far more reliant on main

bank financing than the representative firm. The fraction of shares of the merging firms held by the main bank varies between four and five percent – while this appears small, it should be noted that banks ownership of corporations is capped at 5% in Japan under ordinary circumstances as of 1987.[3]

Table 4 shows the return on assets of the bidder and target companies for the full sample period and by sub-period. For the full sample period, we find that the ROA for bidder and target firms falls slightly in the three years prior to the merger, and picks up modestly in the third year of the merger. In general, we note that target firm ROA tends to be lower than that of bidders, with the difference being largest in the Early 1990s. Not surprisingly, combining the more profitable bidders with the less profitable target firms results in a lower ROA, vis-à-vis bidders, in the immediate aftermath of the merger. Performance in the three year period after the merger remains stable.

Looking at sub-periods, it appears that ROA prior to the merger is highest in the 1980s, declines to its lowest value in the Early 1990s, and rises a little in the Late 1990s. This pattern is consistent with the general decline in profitability in the 1990s following the implosion of the asset bubble of the late 1980s. Overall, it doesn't appear that mergers in Japan are associated with significant changes in ROA.

[3] Prior to 1987, banks were allowed to have ownership of 10% in companies.

5 Results

Abnormal returns are computed beginning 50 days prior to and ending 50 days after the merger announcement using residuals from the market model. The market model parameters are estimated using daily data from 200 days to 50 days preceding the merger announcement using TOPIX as the market index.[4] The daily abnormal return is compounded over various time intervals to get the cumulative average abnormal return (CAR). Table 5 shows several windows of abnormal price returns around the merger announcement date.

We find that the stock price of the target company starts to rise as early as fifty days before the announcement. The abnormal return from day –50 to day 0 is 10.9%, of which approximately half occurs in the five days preceding the announcement of the merger (4.7% from day –5 to day 0). By the end of day +5, the gain for target companies is down to 4.5% (cumulative gain from day –50 to day +5). By the end of day +50, target shares show an average cumulative gain of 5.6%. For shorter windows (such as [-2,+2] and [-5,+5]) the mean and median CARs for target firms are negative and insignificant. This evidence contrasts sharply with the target firm experience in the U.S. reviewed in section 2.

Bidder companies in Japan appear to enjoy positive gains in the period leading up to the announcement of the merger. The bidder CAR from day –50 to day 0 is 3.9%. Immediately after the merger announcement, the bidder share price falls (as was the case with the target). The cumulative return from day –50 to day +5 is 1.9% for the bidder, identical to that of the target company during the same interval. There appears to be no recovery in bidder share prices in the following days – the cumulative bidder return from day +5 to day +50 is insignificant.

[4] We repeat the calculation of abnormal returns with both raw returns as well as an alternative value-weighted index and find materially similar results – these are not tabulated to conserve space.

A puzzling result is the reversal of CARs over short windows surrounding the merger announcement for both target as well as bidder firms. Specifically, we find that while prices rise in the five, two, and one day window prior to the merger announcement, this price rise is largely reversed in the five, two, and one day intervals following the announcement, rendering the [-5,+5], [-2,+2] and [-1,+1] CARs statistically insignificant. Cancelled mergers are very rare, in fact, non-existent in our sample, and cannot explain this puzzling pattern

Next we examine how characteristics of the merging companies influence the abnormal returns for the period [-1,+1] (table 6 and table 7). We measure total bank loan leverage as the value of total loans divided by the book value of assets and find that bidder companies with a ratio above the median have a mean CAR [-1,+1] of -2.4% and a median CAR of -1.6%; however, these CARs are not significantly different from those of companies with leverage below the median. In general leverage does not appear to affect announcement date CARs. The bidding firm's prior ownership in the target firm, and ownership by a common shareholder in the target and bidder firms, do not have an important influence over CARs. The presence of a large corporate shareholder has a small negative influence on the bidder's abnormal returns; the median CAR of bidder companies with a large corporate shareholder is significantly negative and distinguishable from the median of companies that do not have a large corporate shareholder. Keiretsu affiliation or common blockholders do not appear to have a significant impact on CARs for target and bidder firms. CARs for unrelated mergers (inter-industry mergers) are significantly negative for target companies, though not for bidder firms. The mean is negative at -6.8% and the median at -4.7%, both statistically different from the CARs of target companies in same industry (intra-industry) mergers.

Table 7 indicates that target companies' CAR is not significantly different from zero in any of

the sub-periods. The merger returns for target companies does not appear to differ across the sub-periods examined here. The bidder CAR has a mean of -3.1% and median of -3.9% in the Early 90s; both are significant at a 0.01 level. In the other two periods the bidder returns are not significantly different from zero. Comparing the Early 90s with the Late 90s only the median is statistically different at a 0.05 level. These results indicate that when we examine the total sample, we are unlikely to find significant differences between the sub-periods. We will next turn to the influence of financial distress on abnormal returns surrounding merger announcements.

5.1 Financial distress and merger returns

Table 8 shows the results of our tests to examine the influence of financial distress on abnormal return; we look into financial distress of the target company, the bidder company, and both merging companies. Of these three possibilities, we describe the effect on CAR of target and bidder companies below.

Target CAR - The table shows that the financial condition of the target and/or the bidder company does not have any significant influence over the CARs of target companies. The CAR for target companies is not significantly different from zero when target companies are in financial distress or not. A similar pattern is visible in case the bidder company is in financial distress, or both merging companies are in financial distress.

Bidder CAR - The abnormal returns of bidder companies are significantly negative for all merger cases in which a company in financial distress is involved. In mergers in which the target or the bidder or both firms are in financial distress, the mean and median CARs bidder firms are -3.0% and -2.9% respectively. In merger cases involving a target in financial distress, the means and the median returns are statistically distinct from mergers with target companies that

are not in financial distress (at a 0.05 level). When the bidder company is in financial distress, the mean is at -2.4% and the median is at -2.5%. By contrast, mergers not involving companies in financial distress result in means and medians of bidder returns that are not significantly different from zero.

Overall, a significant negative impact on the returns of bidder companies is found in mergers involving a target in financial distress. To examine these results in more detail, we condition the results on whether the target and bidder firms have a common main bank. In particular, we are interested in knowing whether a common main bank is associated with lower announcement date returns for the bidder when the target or the bidder firm is in financial distress. Results are presented in table 9.

First, we look at cases where neither the target nor the bidder firm is in financial distress. Comparing the announcement date returns for both target and bidder firms, we find that mean returns are significantly higher when the merging firms do not have a common main bank. Indeed, the mean announcement date return for target and bidder firms is not statistically significant when the merging firms have a common main bank. However, the test for differences in median for the two sub-samples is not significant.

Next, we examine cases where either the target firm, or the bidder firm, but not both, are in financial distress. These are cases where the bank power hypothesis predicts that mergers will be motivated by a desire to protect the creditor's collateral, rather than any shareholder considerations. We find that the announcement date returns for both targets and bidders is significantly negative (-7.4% for targets, and -5.9% for bidders) when they share a common main bank, and statistically insignificant when they don't. The difference in abnormal returns for the

two cases – common main bank, vs. no common main bank – is statistically significant for both the mean and the median difference tests. When we examine abnormal returns for cases where both the bidder and the target firms are in financial distress, we do not find any significant results.

Interestingly, in non-tabulated results, we also find that mergers involving cross-industry targets yield significantly negative mean returns of -8.9% and median of -6.5%. The CAR in intra-industry mergers is not significantly different from zero, but the returns are statistically distinguishable from cross-industry mergers at a 0.05 level. Overall, these results, coupled with the significantly positive abnormal returns noted earlier, suggest the importance of creditor influence in orchestrating mergers to protect fixed claimants.

6 Conclusions

The market for corporate control in Japan behaves very different from that in the U.S. Using a sample of 91 mergers in the period 1982-2003 we document several distinctive features of this market in Japan. First, we show that in stark contrast to the pro-cyclical U.S. merger waves, mergers in Japan tend to be counter-cyclical, both with respect to the general economy as well as with respect to stock market valuations. Second, and again in contrast to the U.S. experience, we find that a significant fraction of Japanese mergers are orchestrated by the main banks; in such cases, a striking pattern emerges. When the bidder and target firms share a common main bank, mergers do not appear to create wealth for shareholders. The performance of at least one of the merging companies is strong, indicating that the same main bank is primarily motivated to protect its own interests as creditor. This was especially evident in the period after the stock price bubble burst and the same main bank arranged mergers of weak borrowers with a financially strong buyer. In the entire period the same main bank's involvement in mergers between two weak companies is low.

Other distinctive features of Japanese mergers are the positive pre-announcement returns accruing to both bidders and targets, with bidders capturing approximately half the gains that accrue to target companies. We also find differential shareholder wealth effects in the bubble period (1982-1989), the early 1990s, and the post-financial regulation regime (1997-2003). Overall our results point to a market for corporate control that is distinctly less shareholder-focused than that in the U.S. and one where creditors play an important, perhaps dominant, role. Our study points to a cautionary approach in evaluating corporate governance models that rely on enhancing the welfare of creditors and other stakeholders in the belief that eventually such an approach will benefit shareholders.

References

Andrade, G., and E. Stafford. 2004. Investigating the economic role of mergers. *Journal of Corporate Finance* 10: 1–36.

Aoki, M., 1990. Towards an Economic Model of the Japanese Firm. *Journal of Economic Literature*, 28, 1-27.

Arikawa, Y. and H. Miyajima. 2007. Understanding the M&A boom in Japan: What drives Japanese M&A? *RIETI Discussion Paper* 07-E-042.

Berkovitch, E. and M.P. Narayanan. 1993. Motives for Takeovers: An Empirical Investigation. *Journal of Financial and Quantitative Analysis* 28 (3): 347-362.

Bradley, M., A. Desai and E.H. Kim. 1988. Synergistic Gains from Corporate Acquisitions and Their Division Between the Stockholders of Target and Acquiring Firms. *Journal of Financial Economics* 21 (1): 3-40.

Dodd, P. and J.B. Warner. 1983. On corporate governance: A study of proxy contests. *Journal of Financial Economics* 11, 401-438.

Goergen, M. and L. Renneboog. 2003. Shareholder Wealth Effects of European Domestic and Cross-Border Takeover Bids. *ECGI Working Paper Series* 08/2003.

Harford, J. 2005. What Drives Merger Waves? *Journal of Financial Economics* 77: 529-560.

Hoshi, T., A. Kashyap and D. Scharfstein. 1990. The role of banks in reducing the costs of financial distress in Japan. *Journal of financial economics* 27: 67-88.

Ito. 1989. M&A ni yoru Kigyo Kachi Souzou Kouka no Nichibei Hikaku (Company Value Creation through M&A – A Comparison between Japan and the US). *Shōken Analyst Journal* 98.7: 11-23.

Jarrell, G. and J. Poulsen, The Returns to Acquiring Firms in Tender Offers: Evidence from Three Decades, *Financial Management*, 18.

Jensen, M. and R. Ruback, 1983. The Market for Corporate Control: The Scientific Evidence. *Journal of Financial Economics* 5.

Kang, J.K., and A. Shivdasani. 1996. Does the Japanese Governance System Enhance Shareholder Wealth? Evidence from the Stock-Price Effects of Top Management Turnover. *The Review of Financial Studies* 9: 1061-1095.

Kang, J.K., A. Shivdasani, and T. Yamada. 2000. The Effect of Bank relations on Investment Decisions: An Investigation of Japanese Takeover Bids. *The Journal of Finance* 55: 2197-2218.

Komoto. 2002. Wagakuni no Kigyo Gappei no Tokutyo to Keizai Kouka (The Characteristics of Japanese Mergers and their Economic Effect). *Kokumin Keizai Zasshi* 186 (6): 1-16.

Kruse, T., H. Park, K. Park and K. Suzuki. 2007. Long-term performance following mergers of Japanese companies: The Effect of diversification and affiliation. *Pacific-Basin Finance Journal* 15 (2): 154-172.

Lin, B.X., D. Michayluk, H.R. Oppenheimer and S.F. Reid. 2008. Hubris amongst Japanese bidders. *Pacific-Basin Finance Journal* 16: 121–159.

Malmendier, U. and G. Tate. 2003. Who makes acquisitions? CEO overconfidence and the market's reaction. *NBER working paper* No.10813.

Martynova, Martina & Renneboog, L.D.R., 2006. Mergers and acquisitions in Europe. Discussion Paper 6, Tilburg University, Center for Economic Research.

Melicher, R.W. and D.F. Rush. 1974. Evidence on the Acquisition-Related Performance of Conglomerate Firms. *The Journal of Finance* 29 (1): 141-149.

Mitchell, M.L. and J.H. Mulherin. 1996. The Impact of Industry Shocks on Takeover and Restructuring Activity. *Journal of Financial Economics* 41: 193-229.

Miyajima H. and K. Fumiaki. 2005. The Unwinding of Cross-shareholding: Causes, Effects, and Implications. *RIETI Discussion Paper Series* 05-E-006.

Morck, R. and M. Nakamura. 1999. Banks and Corporate Control in Japan. *Journal of Finance* 54: 319-339.

Nelson, R. L. 1959. *Merger Movements in American Industry, 1895-1956*. Princeton University Press.

Pettway, H.R. and T. Yamada. 1986. Mergers in Japan and their Impacts upon Stockholder's Wealth. *Financial Management* 15 (4): 43-52.

Roll, R. 1986. The Hubris Hypothesis of Corporate Takeovers. *Journal of Business* 59: 197-216.

Scher, M., 2001, Bank-firm Cross-shareholding in Japan: What is it, why does it matter, is it winding down? *DESA Discussion Paper* No. 15.

Schleifer, A. and R. Vishny, 2003. Stock market driven acquisitions. *Journal of Financial Economics* 70: 295-311.

Sheard, P., 1989. The Main Bank System and Corporate Monitoring and Control in Japan. *Journal of Economic Behaviour and Organization*, 11, 399-422.

Weston, J. F. and S.K. Mansinghka. 1971. Tests of the Efficiency Performance of Conglomerate Firms. *The Journal of Finance* 26 (4): 919-936.

Yeh, T. 2007. Bank Directorships and Bidder's Returns in Japanese Takeovers *Japanese Journal of Administrative Science* 20 (2): 169-184.

Yeh, T. and Y. Hoshino. 2002. Productivity and operating performance of Japanese merging firms: Keiretsu-related and independent mergers. *Japan and the World Economy* 14: 347–366.

FIGURE 1

A survey of wealth effects of merger announcements in Japan

Cumulative Abnormal Returns (CARs) are based on various windows surrounding the announcement date (AD). Both the magnitude of CAR as well as its window are provided in the figure for bidder and target firms.

		CAR	-5 -4 -3 -2 -1 AD 1 2 3 4 5
Bidder company			
Pettway & Yamada (1986)	1977-1984	**0.70%**	
Ito (1989)	1971-1987	**1.15%**	
Kang et al. (2000)	1977-1993	**1.17%**	
Komoto (2002)	1980-1999	**-2.10%**	
Yeh and Hoshino (2002)	1981-1998	**-1.01%**	
Yeh (2007) *	1981-1998	**-0.34%**	
Target company			
Pettway & Yamada (1986)	1977-1984	**1.33%**	
		-0.07%	
		-0.86%	
Ito (1989)	1971-1987	**1.26%**	
		-2.85%	
		-1.75%	
Komoto (2002)	1980-1999	**-4.90%**	

* Sample includes 109 mergers and 36 tender offers.

FIGURE 2

Mergers activity in Japan from 1981 through 2003.

The number of mergers is plotted on the left vertical axis, and the Nikkei Index (year-end value) is plotted on the right vertical axis. The sample consists of 91 mergers between bidder and target companies listed on the Tokyo Stock Exchange for which the announcement date of the merger is between 1-Jan-1982 and 31-Dec-2003.

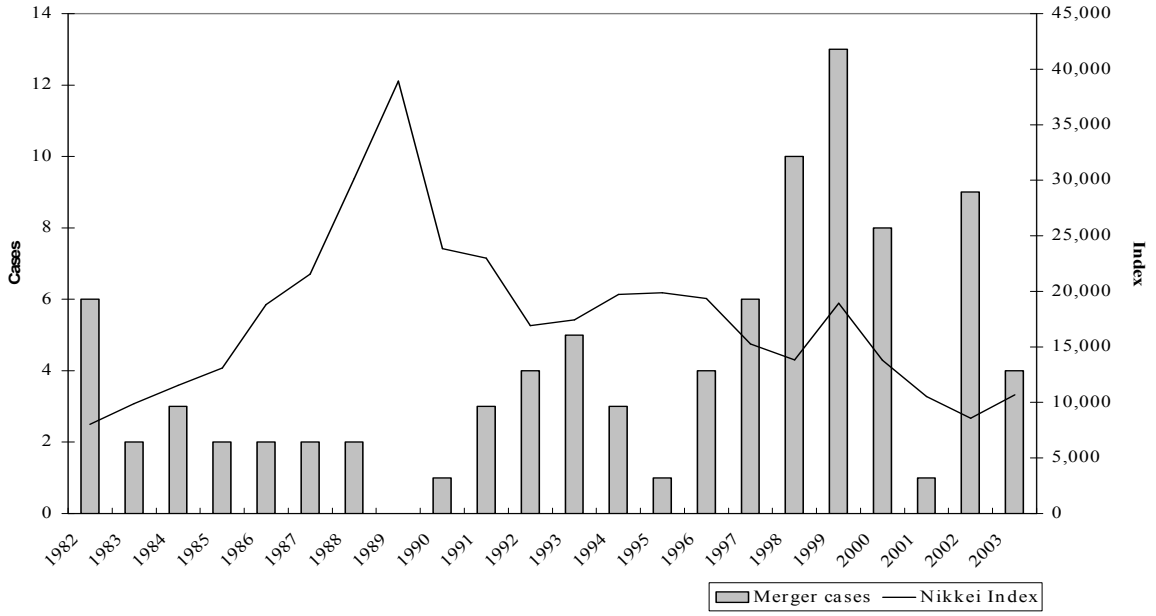


TABLE 1
Merger characteristics by sub-period

The sample consists of 91 mergers between bidder and target companies listed on the Tokyo Stock Exchange for which the announcement date of the merger is between 1 January 1982 and 31 December 2003. A main bank is defined as a bank that is a company's most important lender and belongs to the company's largest 5 shareholders, as indicated in *keiretsu no kenkyu* for the year of the announcement. We define companies as being in financial distress when interest expense exceeds operating income; the interest coverage ratio is lower than 1, in (i) the last fiscal year prior to the merger, or (ii) in two of the four years before the merger. Inter-industry and intra-industry mergers are determined based on the listing codes on the TSE.

	All	1980s	1990s	Early 90s	Late 90s
Number of mergers	91	19	72	21	51
Bidder main bank	65%	53%	68%	95%	57%
Target main bank	67%	58%	72%	76%	67%
Same main bank	31%	29%	31%	52%	22%
Same keiretsu	52%	26%	58%	62%	57%
Inter-industry	19%	37%	14%	24%	10%
Bidder distressed	35%	58%	29%	33%	27%
Target distressed	51%	63%	47%	67%	39%
Both distressed	27%	47%	22%	29%	20%

TABLE 2

Classification of merging companies by financial health

The sample consists of 91 mergers between bidder and target companies listed on the Tokyo Stock Exchange for which the announcement date of the merger is between 1 January 1982 and 31 December 2003. A main bank is defined as a bank that is a company's most important lender and belongs to the company's largest 5 shareholders, as indicated in keiretsu no kenkyu for the year of the announcement. We define companies as being in financial distress when interest expense exceeds operating income; the interest coverage ratio is lower than 1, in (i) the last fiscal year prior to the merger, or (ii) in two of the four years before the merger. Inter-industry and intra-industry mergers are determined based on the listing codes on the TSE. A strong company is not in financial distress, a weak company is in financial distress.

		ALL		Same Main Bank		Not Same MB	
		Strong Bidder	Weak Bidder	Strong Bidder	Weak Bidder	Strong Bidder	Weak Bidder
ALL	Strong Target	42%	8%	43%	11%	41%	6%
	Weak Target	23%	27%	29%	18%	21%	32%
1980s	Strong Target	26%	11%	67%	17%	8%	8%
	Weak Target	16%	47%	0%	17%	23%	62%
Early 90s	Strong Target	29%	5%	27%	9%	30%	0%
	Weak Target	38%	29%	45%	18%	30%	40%
Late 90s	Strong Target	53%	8%	45%	9%	55%	8%
	Weak Target	20%	20%	27%	18%	18%	20%

TABLE 3

Assets and other descriptive statistics of bidder and target firms

The sample consists of 91 mergers between Japanese bidder and target companies listed on the Tokyo Stock Exchange for which the announcement date of the merger is between 1 January 1982 and 31 December 2003. Accounting data are derived from the *Nikkei Needs* Tapes. Data on shareholders of the bidder and target companies are from the publication *keiretsu no kenkyu*. A main bank is defined as a bank that is a company's most important lender and belongs to the company's largest 5 shareholders, as indicated in *keiretsu no kenkyu* for the year of the announcement.

Variable	Target			Bidder		
	n	Mean	Median	n	Mean	Median
Total Assets (mln yen)						
All	91	151,609	51,448	91	690,302	199,709
1980s	19	141,863	15,895	19	473,691	122,176
Early 90s	21	208,165	114,680	21	1,078,900	701,222
Late 90s	51	131,952	55,933	51	610,989	152,572
Total Assets Target / Total Assets Bidder						
All	91			91		0.343
1980s	19			19		0.138
Early 90s	21			21		0.278
Late 90s	51			51		0.417
Main Bank Loans / Debt						
All	63	0.073	0.030	59	0.045	0.011
1980s	11	0.088	0.054	10	0.131	0.042
Early 90s	16	0.047	0.028	20	0.022	0.006
Late 90s	36	0.080	0.026	29	0.031	0.010
Main Bank Shareholding (ownership %)						
All	63	4.3	4.7	59	4.3	4.5
1980s	11	6.0	4.8	10	5.3	5.1
Early 90s	16	4.5	4.8	20	3.8	4.0
Late 90s	36	3.7	4.3	29	4.2	4.5
Common Financial Institution Shareholders (Ownership %)						
All	69	9.8	7.8	69	10.7	10.0
1980s	15	11.6	8.9	15	12.9	13.9
Early 90s	20	11.8	10.3	20	11.8	11.7
Late 90s	34	7.8	7.1	34	9.0	7.8

TABLE 4
Return on assets for bidders and targets

The sample consists of 91 mergers between Japanese bidder and target companies listed on the Tokyo Stock Exchange for which the announcement date of the merger is between 1 January 1982 and 31 December 2003. ROA is calculated as operating profits scaled by the book value of total assets. All accounting data are retrieved from the *Nikkei Needs* Tapes.

ROA		n		-3	-2	-1	0	1	2	3
All	Bidder	91	Mean	0.042	0.042	0.036	0.032	0.030	0.029	0.034
			Median	0.035	0.034	0.032	0.028	0.030	0.028	0.035
	Target		Mean	0.024	0.018	0.015				
			Median	0.026	0.020	0.017				
1980s	Bidder	19	Mean	0.065	0.073	0.055	0.039	0.042	0.036	0.034
			Median	0.054	0.055	0.052	0.046	0.044	0.053	0.045
	Target		Mean	0.048	0.035	0.017				
			Median	0.049	0.030	0.013				
Early 90s	Bidder	21	Mean	0.035	0.032	0.028	0.022	0.024	0.026	0.027
			Median	0.036	0.034	0.032	0.024	0.030	0.023	0.027
	Target		Mean	0.012	0.004	-0.006				
			Median	0.026	0.012	0.010				
Late 90s	Bidder	51	Mean	0.036	0.035	0.033	0.033	0.027	0.027	0.038
			Median	0.031	0.031	0.026	0.028	0.020	0.022	0.036
	Target		Mean	0.020	0.018	0.024				
			Median	0.023	0.019	0.022				

TABLE 5

Cumulative abnormal returns for Japanese targets and bidders in 1982-2003

The sample consists of 91 mergers between Japanese bidder and target companies listed on the Tokyo Stock Exchange for which the announcement date of the merger is between 1 January 1982 and 31 December 2003. The announcement date is that the first date of the merger announcement in the Japanese business press. The press articles from the *Nihon Keizai Shimbun* (Japan Economic Journal), *Nikkei Sangyo Shimbun* (Industrial Journal), *Nikkei Ryutuu Shimbun* (Distribution Journal), and *Nikkei Kinyuu Shimbun* (Finance Journal) are investigated. In parentheses below the mean and median, the p-values for respectively the t-tests and sign-rank tests are reported.

	Target CAR		Bidder CAR	
	Mean	Median	Mean	Median
[-50, 0]	**0.109**	**0.098**	**0.039**	**0.014**
	(0.000)	**(0.001)**	**(0.034)**	**(0.098)**
[-5, 0]	**0.047**	**0.031**	**0.018**	**0.016**
	(0.000)	**(0.001)**	**(0.023)**	**(0.044)**
[-2, 0]	**0.024**	**0.008**	**0.011**	**0.006**
	(0.031)	**(0.036)**	**(0.074)**	**(0.058)**
[-1, 0]	0.014	0.002	0.004	0.002
	(0.145)	(0.115)	(0.515)	(0.554)
[-1, +1]	-0.010	0.000	-0.012	**-0.012**
	(0.466)	(0.446)	(0.110)	**(0.087)**
[0, +2]	**-0.037**	**-0.041**	**-0.013**	**-0.011**
	(0.039)	**(0.010)**	**(0.084)**	**(0.033)**
[0, +5]	**-0.064**	**-0.066**	**-0.020**	**-0.022**
	(0.003)	**(0.001)**	**(0.031)**	**(0.020)**
[0, +50]	**-0.046**	**-0.031**	-0.017	-0.019
	(0.063)	**(0.058)**	(0.315)	(0.194)
[-2, +2]	-0.020	-0.007	-0.006	-0.006
	(0.260)	(0.153)	(0.503)	(0.293)
[-5, +5]	-0.024	-0.034	-0.006	-0.007
	(0.264)	(0.286)	(0.566)	(0.432)
[-50, +50]	**0.056**	0.081	0.019	-0.009
	(0.074)	(0.122)	(0.406)	(0.786)

TABLE 6

Cumulative abnormal returns for bidder and target firms by merging firm characteristics

The sample consists of 91 mergers between Japanese bidder and target companies listed on the Tokyo Stock Exchange for which the announcement date of the merger is between 1 January 1982 and 31 December 2003. Information on all companies that were delisted from TSE during the sample period was collected. Next, it was investigated whether the delisted companies were engaged in a merger by investigating all press articles related to mergers in the period 1982 to 2003. The initial announcement date, i.e. the first day on which the information related to the announcement was public before the end of the trading day, is defined as the day that the merger announcement appears in the press for the first time. The press articles from the Nihon Keizai Shimbun (Japan Economic Journal), Nikkei Sangyo Shimbun (Industrial Journal), Nikkei Ryutuu Shimbun (Distribution Journal), and Nikkei Kinyuu Shimbun (Finance Journal) are investigated. In parentheses below the mean and median, the p-values for respectively the t-tests and sign-rank tests are reported.

		Target CAR [-1,+1]				Bidder CAR [-1,+1]			
	n	Mean	Median	t-test	Wilcoxon	Mean	Median	t-test	Wilcoxon
All	91	-0.010	0.000			-0.012	**-0.012**		
		(0.466)	(0.446)			(0.110)	**(0.087)**		
Total bank loan ratio above sample median	46	-0.017	0.000	0.483		**-0.024**	**-0.016**	1.606	
		(0.259)	(0.368)	(0.630)		**(0.035)**	**(0.033)**	(0.112)	
Total bank loan ratio below sample median	45	-0.003	0.000		0.373	0.000	0.000		1.353
		(0.888)	(0.803)		(0.709)	(0.998)	(0.804)		(0.176)
Bidder and target have common shareholder	28	0.010	0.003	0.971		-0.007	0.001	0.536	
		(0.691)	(0.747)	(0.334)		(0.637)	(0.542)	(0.595)	
Bidder and target do not have common shareholder	63	-0.019	-0.001		0.989	-0.014	**-0.013**		0.557
		(0.255)	(0.249)		(0.323)	(0.101)	**(0.077)**		(0.577)
Common shareholder over 20%	16	0.006	0.009	0.534		0.010	0.012	1.359	
		(0.819)	(0.755)	(0.594)		(0.481)	(0.423)	(0.178)	
No common shareholder over 20%	75	-0.014	0.000		0.751	**-0.017**	**-0.014**		1.632
		(0.397)	(0.340)		(0.453)	**(0.054)**	**(0.021)**		(0.103)
Large corporate shareholder in target or bidder	27	0.021	0.000	1.481		-0.017	**-0.022**	0.404	
		(0.241)	(0.294)	(0.142)		(0.324)	**(0.047)**	(0.688)	
No large corporate shareholder in target or bidder	64	-0.023	-0.001		1.499	-0.010	0.002		**1.738**
		(0.200)	(0.134)		(0.134)	(0.216)	(0.549)		**(0.082)**
Member of same keiretsu	47	-0.026	0.000	1.196		**-0.018**	-0.015	0.816	
		(0.156)	(0.296)	(0.235)		**(0.085)**	(0.214)	(0.417)	
Not member of same keiretsu	44	0.007	0.000		0.647	-0.006	-0.011		0.171
		(0.743)	(0.940)		(0.517)	(0.604)	(0.259)		(0.864)
Intra-industry merger	74	0.003	0.001	**2.035**		-0.011	-0.011	0.308	
		(0.842)	(0.739)	**(0.045)**		(0.204)	(0.156)	(0.759)	
Inter-industry merger	17	**-0.068**	**-0.047**		**2.449**	-0.017	-0.018		0.270
		(0.018)	**(0.011)**		**(0.014)**	(0.283)	(0.394)		(0.787)

TABLE 7

Cumulative abnormal returns for Japanese bidders and targets by period

The sample consists of 91 mergers between Japanese bidder and target companies listed on the Tokyo Stock Exchange for which the announcement date of the merger is between 1 January 1982 and 31 December 2003. Information on all companies that were delisted from TSE during the sample period was collected. Next, it was investigated whether the delisted companies were engaged in a merger by investigating all press articles related to mergers in the period 1982 to 2003. The initial announcement date, i.e. the first day on which the information related to the announcement was public before the end of the trading day, is defined as the day that the merger announcement appears in the press for the first time. The press articles from the Nihon Keizai Shimbun (Japan Economic Journal), Nikkei Sangyo Shimbun (Industrial Journal), Nikkei Ryutuu Shimbun (Distribution Journal), and Nikkei Kinyuu Shimbun (Finance Journal) are investigated. In parentheses below the mean and median, the p-values for respectively the t-tests and sign-rank tests are reported.

		Target CAR [-1,+1]				Bidder CAR [-1,+1]			
	n	Mean	Median	t-test	Wilcoxon	Mean	Median	t-test	Wilcoxon
1980s	19	-0.046	-0.004			-0.016	0.003		
		(0.161)	(0.207)			(0.266)	(0.457)		
Early 90s (1990-1996)	21	-0.022	0.000			**-0.031**	**-0.039**		
		(0.271)	(0.486)			**(0.000)**	**(0.001)**		
Late 90s (1997-2003)	51	0.008	0.000			-0.003	0.000		
		(0.682)	(0.796)			(0.809)	(0.921)		
Comparison 1980s - Early 90s				0.646	0.826			1.027	1.273
				(0.522)	(0.409)			(0.311)	(0.203)
Comparison Early 90s- Late 90s				0.909	0.830			1.468	**2.416**
				(0.367)	(0.407)			(0.147)	**(0.016)**
Comparison 1980s - Late 90s				1.426	1.347			0.604	0.806
				(0.158)	(0.178)			(0.548)	(0.421)

TABLE 8

Cumulative abnormal returns for Japanese bidders and targets categorized by financial distress

The sample consists of 91 mergers between Japanese bidder and target companies listed on the Tokyo Stock Exchange for which the announcement date of the merger is between 1 January 1982 and 31 December 2003. Information on all companies that were delisted from TSE during the sample period was collected. Next, it was investigated whether the delisted companies were engaged in a merger by investigating all press articles related to mergers in the period 1982 to 2003. The initial announcement date, i.e. the first day on which the information related to the announcement was public before the end of the trading day, is defined as the day that the merger announcement appears in the press for the first time. The press articles from the Nihon Keizai Shimbun (Japan Economic Journal), Nikkei Sangyo Shimbun (Industrial Journal), Nikkei Ryutuu Shimbun (Distribution Journal), and Nikkei Kinyuu Shimbun (Finance Journal) are investigated. In parentheses below the mean and median, the p-values for respectively the t-tests and sign-rank tests are reported.

		Target CAR [-1,+1]				Bidder CAR [-1,+1]			
	n	Mean	Median	t-test	Wilcoxon	Mean	Median	t-test	Wilcoxon
Target in distress	46	-0.018	-0.001	0.593		**-0.030**	**-0.029**	**2.474**	
		(0.299)	(0.296)	(0.555)		**(0.002)**	**(0.001)**	**(0.015)**	
Target not in distress	45	-0.002	0.000		0.635	0.006	0.009		**3.401**
		(0.934)	(0.990)		(0.525)	(0.589)	(0.245)		**(0.001)**
Bidder in distress	32	-0.023	-0.001	0.693		**-0.024**	**-0.025**	1.206	
		(0.309)	(0.332)	(0.490)		**(0.033)**	**(0.060)**	(0.231)	
Bidder not in distress	59	-0.003	0.000		0.748	-0.005	0.000		1.425
		(0.863)	(0.890)		(0.454)	(0.583)	(0.496)		(0.154)
Target and bidder in distress	25	-0.009	0.000	0.029		**-0.030**	**-0.029**	1.482	
		(0.729)	(0.809)	(0.977)		**(0.016)**	**(0.021)**	(0.142)	
Target and bidder not in distress	66	-0.010	0.000		0.049	-0.005	0.000		**1.872**
		(0.524)	(0.520)		(0.961)	(0.569)	(0.591)		**(0.061)**

TABLE 9

Cumulative abnormal returns for Japanese bidders and targets by main bank involvement

The sample consists of 91 mergers between Japanese bidder and target companies listed on the Tokyo Stock Exchange for which the announcement date of the merger is between 1 January 1982 and 31 December 2003. Information on all companies that were delisted from TSE during the sample period was collected. Next, it was investigated whether the delisted companies were engaged in a merger by investigating all press articles related to mergers in the period 1982 to 2003. The initial announcement date, i.e. the first day on which the information related to the announcement was public before the end of the trading day, is defined as the day that the merger announcement appears in the press for the first time. The press articles from the Nihon Keizai Shimbun (Japan Economic Journal), Nikkei Sangyo Shimbun (Industrial Journal), Nikkei Ryutuu Shimbun (Distribution Journal), and Nikkei Kinyuu Shimbun (Finance Journal) are investigated. In parentheses below the mean and median, the p-values for respectively the t-tests and sign-rank tests are reported.

		Target CAR [-1,+1]				Bidder CAR [-1,+1]			
	n	Mean	Median	t-test	Wilcoxon	Mean	Median	t-test	Wilcoxon
Target and bidder not in distress									
Common main bank	12	-0.068	-0.041	**2.311**		-0.028	-0.003	**2.089**	
		(0.219)	(0.774)	**(0.027)**		(0.329)	(1.000)	**(0.044)**	
Not common main bank	26	**0.048**	0.024		**1.727**	**0.025**	**0.009**		1.539
		(0.060)	(0.308)		**(0.084)**	**(0.045)**	**(0.093)**		(0.124)
Target or bidder in distress									
Common main bank	11	**-0.074**	-0.082	1.606		**-0.059**	**-0.066**	**2.343**	
		(0.018)	(0.344)	(0.121)		**(0.005)**	**(0.065)**	**(0.027)**	
Not common main bank	17	-0.017	0.000		1.460	0.000	-0.013		**1.999**
		(0.452)	(0.791)		(0.144)	(0.997)	(1.000)		**(0.046)**
Target and bidder in distress									
Common main bank	5	-0.058	0.000	0.887		-0.046	-0.029	0.683	
		(0.456)	(1.000)	(0.384)		(0.283)	(0.375)	(0.501)	
Not common main bank	20	0.003	-0.001		0.340	**-0.026**	-0.026		0.272
		(0.932)	(1.000)		(0.734)	**(0.038)**	(0.115)		(0.786)