

The Effects of Corporate Governance Reforms in Japan on the Market for Corporate Control and Merger & Acquisition Activity

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Abstract

For the 1990 to 2016 period, we analyze the effects that new corporate governance regulations and other regulatory reforms in Japan had on the market for corporate control and especially on merger and acquisition activity. For bidder and target shareholders we find that the magnitude of the announcement returns converges towards US and European deals over time. We also provide empirical evidence of a change towards a more capital market orientated corporate governance structure in Japan with less dependence on bank debt and an increase in foreign equity ownership as well as higher M&A activity. After regulatory reforms in 2004, bidder, target and deal characteristics changed substantially. We further analyze M&A transactions in which bidder and target share the same financial advisor, a phenomenon most prominent in Japan. At a first glance, we do not find significant evidence that capital market participants in Japan either expected or valued potential conflicts of interest in these deals. However, there is some evidence that the bidder paid a lower premium and that domestic common advisors pre-arranged some of these transactions to minimize their own losses as creditors. With respect to the time to deal completion, the results are mixed. Overall, we provide some evidence that, after a challenging start due to the Japanese economic crisis and the Asian crisis, the corporate governance reforms in Japan were effective by increasing the M&A activity and creating a more active market for corporate control. We also observe that some advances at best are slowly progressing.

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1. INTRODUCTION

Historically, the financial and corporate governance systems in Japan were bank dominated and quite distinct from the more capital market oriented systems in the US and UK. One consequence of this structure is that the market for corporate control usually is less efficient. In Japan, this became evident through lower M&A activity (Milhaupt and West, 2003) and very few hostile takeover attempts (Puchniak and Nakahigashi, 2016). However, this changed at the end of the 1990s when new regulation such as increased transparency and better investor protection became effective and the activities of foreign investors were less restricted. Furthermore, financial market deregulation offered banks' the opportunity to expand their activities beyond lending into M&A advisory. As in most similar financial systems, the multiple roles of banks created severe agency problems. For example, the main banks acting as the predominant monitor in Japan had and still possess substantial information advantages and influence on management (Miyajima et al., 2017). A unique example for such a conflict of interest are M&A deals in which a bank advises both bidder and target, and sometimes even prearranges the transaction.

The introduction of the "Principles of Corporate Governance for Listed Companies" in 2004 was one factor in the effort to reduce the conflicts of interest in the Japanese financial system and to position itself closer to a capital market-oriented financial and corporate governance system. Following the recommendations of the Listed Company Corporate Governance Committee, the Tokyo Stock Exchange (TSE) introduced standards to "*provide a necessary common base for recognition, thereby enhancing corporate governance through the integration of voluntary activities by listed companies and demands by shareholders and investors*" (TSE, 2004). The main purpose of this development was to eliminate or at least considerably reduce the cross-shareholdings among listed companies, achieve more transparency for investors, and to attract a much broader and more international shareholder base.

The objective of our study is to analyze the effects that the regulatory reforms had on the quality of the financial and corporate governance system in Japan and in particular on the market for corporate control and M&A activity. We also investigate the specific deals in which the same bank advised both bidder and target simultaneously. In this way, we contribute to the literature and add to the limited empirical evidence analyzing the potential conflicts of interest due to common ownership or common advisory. Our study also addresses implicitly the critical question of how long it takes until new political goals and regulatory changes are fully absorbed and reflected in the financial and corporate governance systems and in the market for corporate control. For this, we analyze a sample of 628 Japanese mergers and acquisitions (M&A) that occurred between 1990 and 2016. We compare various aspects of M&A deals during the periods before and after the implementation of the new regulation, and we investigate the cases when bidder and target share the same financial advisor. We find insignificant bidder announcement returns for both periods, and significant positive target returns in the both periods, but relatively higher returns in the second period, with similar magnitude as in other countries. We also provide robust empirical evidence that bidder, target, and deal characteristics changed subsequently to the corporate governance reforms around 2004, suggesting that the market for corporate control advanced towards more capital market oriented corporate governance standards. Companies reduced their bank debt, indicating weakening bank-ties during the period 2005 to 2016. For M&As where bidder and target share the same financial advisor, the valuation effects do not differ significantly from other M&A transactions, although some of these are prearranged transactions to deal quietly with the financial difficulties of the targets and the banks' credit exposures.

We structure the rest of this study as follows. In the next section, we review the literature with respect to financial system and corporate governance issues in Japan, and in section 3, we describe our sample and methodology. In section 4, we discuss and analyze the valuation effects of M&As in Japan, as well as the effects of corporate governance and regulatory reforms on

bidder, target and deal characteristics. Section 5 contains our analysis when bidder and target share the same financial advisor. Section 6 concludes.

2. LITERATURE REVIEW

In this section, we review and discuss for Japan the corporate governance system (2.1), the ownership structure and the market for corporate control (2.2.) as well as the role of investment banks in M&A transactions (2.3).

2.1 Corporate Governance System in Japan

Historically, the Japanese financial system was the archetype of a bank-based structure (Charkham, 1994; Jackson and Moerke, 2005) and similar to that in Germany. These systems were in contrast to the market-based structures in the US and the UK. For decades, these two archetypes constituted the opposite extremes of the spectrum of financial market and corporate governance systems. Since the beginning of the new millennium, both extremes progressed closer to each other. The US abandoned Glass-Steagall (Banking Act of 1933), ending the separation of investment and commercial banking, which may have resulted in more risk taking (Neal and White, 2012). During the same period, Germany initiated number of reforms.¹ As the US and German cases suggest, even well intended changes take time to create the intended effects if they occur at all, are risky and associated with high adjustment costs and agency problems as the behavior of market participants is difficult to predict. Hence, it is interesting to

¹ Germany introduced new capital market reforms and corporate governance regulation, intended to advance equity financing and reduce the banks' dominance. Consequently, German banks sold their equity stakes in industrial companies, limited their supervisory board seats, and abandoned the proxy voting for their mutual fund customers (Rapp and Strenger, 2015). This dramatically changed the structure of the German financial system and the financing behavior during the next decade (Bessler and Drobetz, 2015). Initially, this also resulted in a corporate governance vacuum that active hedge funds were eager to exploit (Bessler et al., 2015).

analyze how well and how quickly the Japanese financial system adjusted to these reforms.²

One critical aspect of the Japanese financial system was the high bank dependency of companies and the double role of banks (Prowse, 1992). Important regulatory reforms intended to bring the financial system closer to a market-based organization occurred in Japan in 1998 and 2004 (Hoshi and Yasuda, 2015). Primarily banks had financed the rebuilding of the industry after the World War II, and in the following decades, banks were mainly supporting the interests of creditors (Morck et al., 2000). Because of this company-bank interdependency and vice versa, banks implemented monitoring systems preventing managers from making too risky investments (Aoki, 1994). Eventually, the bank would even rescue the financially distressed companies to ensure that creditors were paid (Miwa and Ramseyer, 2002), and there is some evidence that banks prearranged mergers at the end of the 1990s for the same reason (Mehrotra et al., 2011). Consequently, safety and growth was the dominant bank objective rather than shareholder value maximization (Kester, 1992; Charkham, 1994; Ueda, 2015).

Japanese banks were not only debt holders but also equity holders in non-financial companies (Berglöf and Perotti, 1994; Morck et al., 2000). Even though banks could not hold more than five percent of the shares of a non-financial company, the close relationship resulted in insider control and insider-dominated boards with strong bank influence (Morck et al., 2000; Mehrotra et al., 2011). In contrast, industrial companies were not restricted to the five percent hurdle, resulting in horizontal cross-holdings among industrial companies, hindering unwelcomed M&A attempts. Moreover, companies owning shares of their debtors and creditors formed large industrial groupings, called the *keiretsu* corporate networks, in which organizational lines became unclear (Kester, 1992). There were times in the late 1980s and early 1990s

² Corporate governance indices indicate that Germany and Japan had similar starting points with a strong bank-orientation when they began adjusting their corporate governance systems (LaPorta et al., 2000; Aoyagi and Ganelli, 2017).

when these conglomerates comprised almost half of the top 200 Japanese companies (Weimer and Pape, 1999). The power of auditors and monitoring by outside shareholders in the *keiretsu* was relatively weak compared to independent corporations. Often the lead bank was the only monitor of the management, which rather internalized the market for corporate control and served as disciplining mechanism for a company's management (Aoki, 1994; Berglöf and Perotti, 1994; Miyajima et al., 2017). Consequently, despite external monitoring and the presence of institutional investors getting more important, the main bank in Japan today still plays an important role in corporate governance (Miyajima et al., 2017).

Another important aspect in the reform process was the internationalization of the investor base and the introduction of new guidelines. As in most countries, the financial institutions themselves face tight national and international regulation. In the 1990s, however, Japanese banks still enjoyed their dominant status at home, as foreign banks and financial institutions could not easily engage in the Japanese banking and securities markets. This affected the structure of the financial and corporate governance systems and it is one explanation for the low M&A activity and the lack of hostile takeovers in Japan (Charkham, 1994; Mehrotra et al., 2011; Puchniak and Nakahigashi, 2016).

To satisfy the demands of foreign investors, the regulators reacted with a bundle of regulatory changes (e.g., Securities and Exchange Law, Law on Foreign Securities Firms, Investment Trust Law, J-SOX). Consequently, foreign investors increased their stake in Japanese equities replacing banks, however, with some strategic hesitation during the late 1990s financial crisis (Karolyi, 2002; Yoshikawa et al., 2007). Another major effect came from the reform of the Japanese Commercial Code in April 2003, requiring firms to increase the number of outside auditors and to publish, among other things, detailed quarterly reports about parent as well as subsidiary entities (Nakamura, 2016). Nevertheless, the reforms allowed companies to choose between a statutory auditor and a committee system so that adopting Anglo-Saxon corporate

governance practices took only partially and gradually place (Ovsiannikov, 2017), resulting in some kind of an inconsistent corporate governance structure (Yoshikawa et al., 2007; Nakamura, 2016).³

Not only the introduced legal changes such as the Japanese Commercial Code contributed to a new corporate governance system, but also the introduction of the “Principles of Corporate Governance for Listed Companies” by the Tokyo Stock Exchange in 2004 (Ovsiannikov, 2017) had a positive effect. Like the simultaneously published update on the “Principles of Corporate Governance” of the OECD, they included more rights and equitable treatment for shareholders together with more transparency to attract a broader and more international shareholder base. These voluntary guidelines for listed companies aimed at reducing cross-shareholdings, which strengthened the rights of outside shareholders. Following the arguments, we derive the following first hypothesis:

H1. The introduction of the “Principles of Corporate Governance for Listed Companies” should lower bank dependency and thus entail lower debt-holdings of corporations from 2005 on.

2.2 Ownership Structure and the Market for Corporate Control

One aim of the regulatory and legal reforms in Japan in 2004 was to advance the corporate governance system and the market for corporate control to international standards by means of altering the ownership and monitoring structures (Yoshikawa et al., 2007). This meant reducing the equity cross-holdings between industrial companies and the holdings of banks in

³ Thus, the organizational structure is only with respect to some aspects comparable to the German two-tier system as, for example, at least one auditor has to be appointed full-time.

industrial companies and vice versa. It also meant attracting more foreign institutional and corporate investors. The changes of the ownership structure of Japanese firms during the period from 1970 to 2016 are presented in *Figure 1*:

Figure 1 – Development of Share Ownership by Type of Investor

Since the beginning of the 1990s, we observe substantial structural changes in the ownership structure of Japanese firms. Foreign investors' equity holdings at the Tokyo Stock Exchange increased considerably from 4.9% in 1970 to 30.1% in 2016, a development already observed at the mid-1990s (Karolyi, 2002). Additionally, private investors shifted some of their direct investments in Japanese companies (from 37.7% to 17.1%) to professionally managed diversified investment funds in trust banks (0.0% to 19.6%). Their fund managers act as institutional investors being in rivalry with each other competing for performance. Most importantly, trust banks replaced (from 32.9% to 11.0%) the ownership and the long-term and patient approach of the city and regional banks as well as insurance companies and investment banks (Schaede, 2008). The main bank system already had lost some importance due to the banking crisis in 1997, resulting in banks selling their cross-shareholdings (Mehrotra et al., 2011). Further, the deregulation of the financial system caused by the "Japanese Big Bang" in 1998 (Gibson, 2000) made large companies move from bank debt to capital market debt. Nevertheless, the main bank continues to perform an important role in monitoring and disciplining management (Kuroki, 2003; Baxter, 2009; Miyajima et al., 2017). Overall, the holdings of financial institutions, foreigners, and business corporations remain rather stable at about 55% in the period from 2004 to 2016. Analyzing the statistics for 2016 (TSE, 2017) suggests that networks are still in place. Corporations continue to hold a substantial 22.1% in other corporations. Interestingly, the Bank of Japan advanced as an important shareholder recently as they became, for monetary policy reasons, the primary investor in ETFs in Japan increasing the quarterly

ETF purchases from about 0.1 trillion in 2011 to more than 1.4 trillion Japanese Yen at the end of 2016 (Barbon and Gianinazzi, 2017).

Viewed from a corporate governance perspective, domestic and international institutional investors own about 45% of the equities, which should be sufficient for creating an effective market for corporate control. Moreover, hedge funds activism surfaced in Japan at the beginning of the new millennium, completing the full spectrum of active shareholders and possibly improving the market for corporate control in Japan (Buchanan et al., 2012). In addition, corporations (22.1%) and main banks (11.0%) could also act as monitors, although for different reasons. However, these may be the weakest link in the market for corporate control due to the well-known inherent agency problems. Finally, private direct investors (17.1%), which classify as minority shareholders, exert less control but need good protection in an efficient corporate governance system (Franks et al., 2014). Given all these changes in ownership structure and monitoring capabilities and incentives, this should result in a better-functioning market for corporate control in Japan.

Another reason for Japan progressing closer to a more shareholder-orientated market for corporate control was to prevent losing additional market share to London and New York. These capital markets are attractive to international investors, as they not only provide the legal framework but also the institutional setup for outside ownership (Cetorelli and Peristiani, 2013; Franks et al., 2014). For this, policymakers reduced barriers of entry for foreign investors seeking acquisitions in Japan (Ahmadjian and Robbins, 2005). In general, buying and selling shares became easier for domestic and foreign corporations and institutional investors. As a result, Japan's financial markets turned more global at the end of the 1990s with a more active market for corporate control (Milhaupt and West, 2003). Already starting in 1997, revisions of the Commercial Code made it possible to swap stocks as a method of payment to complete a merger offering corporations a variety of options for reorganization through M&As (Schaede, 2008).

Further, stock market regulations changed to liberalize international capital flows and to facilitate friendly and hostile takeovers, leading to more M&A activity (Mehrotra et al., 2011) and more competition among Japanese companies in the market for corporate control (Nakamura, 2016). From the review and discussion above, we formulate our second hypothesis:

H2. Changes in Corporate Governance should lead to a more active market for corporate control as well as a higher fraction of hostile takeovers.

2.3 Role of Investment Banks and Financial Advisors

With less regulated and more competitive markets, fee structures and therefore bank income declined with weakening bank shares at the same time (Karolyi, 2002; Hoshi and Yasuda, 2015). Consequently, banks expanded their activities and acted not only as underwriters but also became advisors in acquisitions, generating the necessary fee income to compensate for the lower income in their traditional lines of business (Schaefer, 2008; Mehrotra et al., 2011). As banks in general do, the main banks maintained a competitive advantage and still possessed more information about the company relative to “outside” institutions due to a pool of private information acquired through past transactions (Fama, 1980; Kutsuna et al., 2007).

Table 1 lists the top domestic and foreign investment banks involved in M&As in Japan. According to the number of deals, Japanese domestic banks are dominating. These banks often belong to a larger conglomerate and as a result offer advisory services in M&A transactions besides their typical lending services. Ranked by deal value, US investment banks are the leading advisors in M&A transactions during the 1998 to 2004 period. The investment banks Goldman Sachs & Co. and Bank of America/Merrill Lynch advise Japanese bidders with a total volume of over 300 billion USD (Panel A). The largest Japanese investment bank ranked by value is Nomura in third place with a volume of advised deals of nearly 100 billion USD. Ranked solely by the number of advised transactions, Nomura ranks first place with 87 deals

in total during the period from 1998 to 2004. In the latter period, 2005 to 2016 (Panel B), Nomura is the top investment bank; it advises the highest number of deals and has the highest advised transaction volume with almost 170 billion USD.

Table 1 – M&A League Tables of Transactions with Japanese Bidder

Banks acting as lenders naturally have the top priority of getting loans repaid. This could result in conflicts of interest between the bank as debt holder and the equity holders of the company (Hoshi et al., 1990). In M&A transactions, this conflict of interest may become even more severe as the bank has an incentive to transfer its loan risk from weak to strong debtors (Ivashina et al., 2009; Higgins, 2013). For a worldwide sample of 28,234 mergers (1992 to 2005), Ivashina et al. (2009) find that firms with relative high bank lending are more likely to become takeover targets. One possible explanation, among others, is that the bank offered private information to clients that are potential acquirers. Consequently, the disciplining role of banks and bank debt is likely to become even more controversial in the future as commercial banks are more and more involved in investment banking and merger activities (Ivashina et al., 2009). Whether the competition from foreign and especially US investment banks will mitigate these agency problems or even amplify them, is open for debate and needs further analysis.

In section 5, we examine Japanese M&A deals in which banks acts as advisor to both the bidder and the target, or, in general, maintaining simultaneously business relations with bidder and target. There are only a small number of such transactions documented for other countries as they mainly occurred in Japan. Agrawal et al. (2013) analyze 98 such M&A transactions in the US between 1981 and 2005 and report that these deals take longer to complete and provide lower premiums to target shareholders. They interpret their results as a confirmation of the conflict-of-interest hypothesis favoring the bidding party. In contrast, Chen et al. (2017) find for firms headquartered in the US that common bank relations lead to higher merger

gains as combined shareholder value increase. They argue that common bank relationships improve merger synergy by reducing information asymmetry, which results from collecting private target information and handing them over to the potential acquirer. In contrast, Mehrotra et al. (2011) find lower merger gains in Japan when merging firms share a common main bank. They explain their findings for a sample of 91 M&As between 1982 and 2003 with the banks' primary motivation to protect its own interests as lender as they do not act in the interest of bidders or targets.

The important question is, why do Japanese firms use the same advisor in M&A transactions, and what are the benefits and costs when bidder and target share the same financial advisor. We try to shed some light on these questions by testing the following four hypotheses:

- H3a.** Transactions with the same financial advisor should occur less often after the introduction of the "Principles of Corporate Governance for Listed Companies".
- H3b.** Sharing the same financial advisor should affect the time to deal completion.
- H3c.** Sharing the same financial advisor should disadvantage target shareholders, resulting in higher bidder gains and lower target premiums.
- H3d.** A key determinant in the decision of sharing the same financial advisor is the investment bank itself as it prearranges M&A transactions between stronger bidders and weaker targets to deal with their own creditor interests.

3 DATA AND METHODOLOGY

3.1 Sample Description

Our sample covers M&A activities in Japan for the period between January 1990 and December 2016 (*Figure 2a*). In contrast to other countries, especially the US, we do observe only one single merger wave in our sample period (Betton, 2008; Mehrotra et al., 2011; Alexandridis et al., 2017). The data comes from the Thomson Eikon Dealscreener M&A database. All bidders are located in Japan and there are no geographical restrictions for the target. Further, bidders and targets are publicly traded companies. To highlight the phenomena of both parties sharing the same financial advisor during the post crisis and pre-governance-reform period, we include private targets as well (*Figure 2b*). However, they are not included in the detailed analysis. Before the announcement, the bidder owns less than 50% of the target's shares and holds more than 50% of the shares after the M&A transaction, that is, the bidder is seeking control. The takeover has to be "completed". Transaction volume must be at least one million USD and there should be no bidder contest. Self-mergers and buybacks we exclude. Financials (SIC 6000-6999) and utilities (SIC 4000-4999) are also omitted. The final sample consists of 628 completed M&As. In 73 deals public bidder and public target share the same financial advisor (11.6%). The sample including both, public and private targets contains 183 transactions where bidder and target share the same financial advisor (9.1%).

In *Table 2* we present the detailed sample distribution by year, target country, and target industry differentiated by having or not having the same financial advisor in an M&A transaction. Panel A lists the number of M&A transactions for each year between 1990 and 2016. The highest level of deals with the same financial advisor occurs during the 1998 to 2004 period. Panel B contains the distribution of deals with the same financial advisor by target country. All of these transactions occur within Japan and with Japanese financial advisors. None of the US investment banks is involved in such deals. Panel C presents the distribution of our sample per

target industry, which is based on the 2-digit SIC code (Standard Industrial Classification). Most transactions take place in “Business Services”, “Electronic Equipment”, and “Chemicals”. Transactions with the same financial advisor most frequently occur in “Building Construction”, “Wholesale”, and “Business Services”.

Figure 2a – M&A Sample distribution per Year – Public Companies

Figure 2b – M&A Sample distribution per Year – Public and Private Companies

Table 2 – Sample Distribution

3.2 Methodology

In well-functioning financial markets, share prices instantaneously and fully reflect all available information (MacKinlay, 1997). To analyze the wealth effects associated with the M&A announcement, we calculate abnormal returns (AR) based on the market-adjusted returns model by subtracting the country's value-weighted total market index return r_m from the return of event firm i at day t :

$$(1) \quad AR_{i,t} = r_{i,t} - r_{m,t} .$$

We sum the abnormal returns over days $t-2$ to $t+2$ where day t is the M&A announcement date (event day) to obtain the five day cumulative abnormal return (CAR) for each firm i , which we then equally weight across all events:

$$(2) \quad CAR_{i,(-2,+2)} = \sum_{\tau=t-2}^{t+2} AR_{i,\tau} \text{ with } CAR_{(-2,+2)} = \frac{1}{N} \sum_{i=1}^N CAR_{i,(-2,+2)} .$$

Additionally, we sum CARs for a 41 day event window $(-20, +20)$ to check whether the results also hold for longer event windows. To test for statistical significance, we employ a parametric t-test and a non-parametric Mann-Whitney U test when comparing the CARs of different bidder or target groups.

The long-term valuation effects for bidders and targets are analyzed with buy-and hold abnormal returns (BHAR) for a period up to one year after the M&A announcement. To calculate cumulative abnormal returns for the longer period, we estimate BHAR:

$$(3) \quad \text{BHAR} = \frac{1}{N} \sum_{i=1}^N [(\prod_{t=1}^T (1 + R_{i,t})) - (\prod_{t=1}^T (1 + R_{m,t}))].$$

We conduct several ordinary least squares (OLS) and two-stages least squares (2SLS) regressions at the time of deal completion as well as for the size of the premium paid by the bidding company. Further, we estimate the likelihood of bidder and target choosing the same financial advisor in an M&A transaction with the following probit model:

$$(4) \quad \text{Prob}(Y = 1|\mathbf{x}) = \int_{-\infty}^{\mathbf{x}'\boldsymbol{\beta}} \phi(t)dt = \Phi(\mathbf{x}'\boldsymbol{\beta}),$$

where function $\Phi(\cdot)$ denotes the standard normal distribution function and Y is a binary variable that equals 1 for bidder and target having the same financial advisor in a single transaction, and zero otherwise. We estimate marginal effects for a one standard deviation change around the mean in case of a continuous variable, and for a change from zero to one for all dummy variables. In all regressions, we use heteroscedasticity-consistent standard errors (White, 1980).

4. UNIVARIATE RESULTS

In this section, we present and discuss our empirical results for our hypotheses. We start with an analysis of the wealth effects for different periods (4.1) and continue with descriptive statistics of bidder, target and deal characteristics (4.2 and 4.3). Finally, we discuss and interpret our findings from the univariate analysis (4.4).

4.1 Announcement Returns

In *Table 4a*, we compare the five-day valuation effects (-2; +2) between the two periods before (1990 to 2004) and subsequent (2005 to 2016) to the introduction of new corporate governance regulations (Panel A). In line with prior research for M&As in Japan, we find insignificant small positive abnormal bidder returns. The mean (median) abnormal returns are 0.97% (0.67%) for the 1990 to 2004 period and 0.59% (0.37%) for the 2005 to 2016 period. These results are comparable to the ones reported in Kang et al. (2000), Higgins and Beckmann (2006), and Inoue (2009). However, they are smaller than the findings of Alexandridis et al. (2010) who report significant abnormal bidder returns of 2.45%. Although the mean CARs for the bidder in the 2005 to 2016 period are 0.38 percentage points lower than in the 1990 to 2004 period, the difference is insignificant, suggesting no change in valuation behavior over time. For comparison, *Table 3* provides an overview of empirical results from previous studies of bidder and target announcement returns in Japan as well as in some other countries.

Table 3 – Overview Bidder and Target Announcement Returns

For the longer 41-day window (-20; +20), we find for the first period (1990 to 2004) positive abnormal returns for bidders with a mean (median) of 2.71% (2.18%) (*Table 4b*). In contrast, for the second “regulation reform” period (2005 to 2016) we observe much lower positive abnormal returns with a mean (median) of 1.18% (1.00%). However, the difference in CARs between the first and the second period, again, is insignificant for the full sample. The charts in *Figure 3* clearly provide evidence that in the short run bidders in M&A transactions in Japan do not gain positive valuation effects neither in the first nor in the second period. One possible explanation is that all merger benefits are reflected in the premium paid to the target shareholders who capture the entire expected value creation (Alexandridis et al., 2010). This is consistent with most of the empirical evidence in the literature for well-functioning capital markets (Bessler and Schneck, 2015).

Table 4a – Bidder and Target Announcement Returns for the 5-day event window

Table 4b – Bidder and Target Announcement Returns for the 41-day event window

Figure 3: Cumulated Abnormal Return (CAR) for the 41-day event window

For the target, we find, as expected, significantly positive abnormal returns over the five-day event window for both periods. In the second period (2005 to 2016), the abnormal returns are relatively larger with a mean (median) of 9.19% (9.58%) compared to the 4.36% (4.46%) in the first period (1990 to 2004). These results are similar to the findings of Hanamura et al. (2011) and Inoue (2009), but they are slightly higher than the CARs of 7.9% reported in Alexandridis et al. (2010). The return differences between the two periods are highly significant, indicating that the valuation effects for targets in Japan have increased subsequent to 2004. We will explore the explanation for this observation in the cross-sectional regression analysis.

For the longer 41-day event window (-20; +20), we find for the first period (1990 to 2004) a significant mean return (median) of 8.19% (7.11%) for targets. For the second period (2005 to 2016), we observe even higher positive abnormal returns with a mean return (median) of 12.53% (11.00%). Similar to the shorter event window (-2; +2), the return differences between the two periods are also significant for the longer event window (-20; +20), being now more in line with US and European results. The convergence to a higher premium level between the first and the second period is clearly visible in *Figure 3*. In a subgroup of our sample (Panel B), we focus only on transactions with different financial advisors. Again, we compare the two periods 1990 to 2004 and 2005 to 2016. Yet, we do not observe significantly different results compared to the full sample analysis.

Overall, the shareholders' wealth effect for bidders and targets during the first period (1990 to 2004) are similar to the ones in prior studies for M&As in Japan. These results do change for targets in the second period (2005 to 2016), after the implementation of new corpo-

rate governance rules and other regulatory changes. However, it appears that, for various reasons, the market for corporate control in Japan is still less aggressive and less competitive than in other countries such as the US or the UK. As a result, bidders in Japan do not offer an excessive premium (winner's curse) to gain control over the target.

Interestingly, the long-term valuation effects (BHAR) of 8% for the target during the second period after 2004 (yellow line) occur fully and immediately at the time of the announcement (*Figure 4*), suggesting that the market is able to discount all expected synergies from the M&A immediately. The first period (1990 to 2004) valuation effects for the targets are significantly different. There are only small positive valuation effects of about 2-3% at the announcement. These increase to about 9% after 6 months and decline back to 4% at the end of the first year. Consequently, we observe a significant spread between the first and second period both, after the announcement and at the end of the first year. The results for the second period are consistent with target valuation effects and premiums paid in capital market oriented countries (Bessler and Schneck, 2015), suggesting that the reforms moved Japan closer to such a system.

Figure 4: BHAR for Bidder and Target the first Year post M&A announcement

With respect to bidders' long-term valuation effects for the pre- and post-reform periods during the first year after the announcement, we observe positive BHARs of about 3% during the first period and about 4% during the second period. Interestingly, the effects seem to diverge after 9 months when the target returns during the first period start to decline.

4.2 Univariate Analysis of Bidder, Target and Deal Characteristics

To analyze the effects that the new corporate governance rules and the generally observed increase in foreign ownership of Japanese listed firms have on M&A activities in Japan, we divide the full period (1990 to 2016) again into two sub-periods (1990 to 2004 and 2005 to 2016). These periods span the time before and after the reform of the Japanese commercial code

and the introduction of the “Principles of Corporate Governance for Listed Companies”. If these reforms were relevant, we may observe some differences in takeover characteristics. In this part, we compare only deals in which bidders and targets have different financial advisors, to make sure that the differences in characteristics are due the corporate governance changes.

In *Table 5*, we provide the descriptive statistics for all bidder, target, and deal characteristics. With respect to horizontal *keiretsu* membership, one of the two parties belongs to such an industrial grouping in about 35% of the deals during the first period (1990 to 2004). In contrast, during the second period (2005 to 2016), in only 26% of the M&A deals is one party a *keiretsu* member. For the full period, we observe lower proportions of *keiretsu* membership than reported by Weimer and Pape (1999), who report that almost half of all Japanese listed firms were member in inter-corporate networks in 1991. Further, the deal values in Japan are higher in the second period (2005 to 2016) compared to the first period (1990 to 2004), which is not surprising as deal values around the world have steadily increased (Betton et al., 2008; Alexandridis et al., 2017). The one-week takeover premium paid by the bidder before 2005 is about 8% and lower than the 29% that we observe subsequently. Thus, premiums converge to M&A transactions in other countries, which are roughly about 30% (Alexandridis et al., 2010; Bessler and Schneck, 2015). Whether this should be viewed as an adjustment towards a capital market-oriented system or whether this is more due to the fact that US investments banks are the advisor, or whether this is due more to international investors (directly or through mutual funds) demanding more international corporate governance standards, will be addressed in the regression analysis.

*Table 5 – Univariate Comparison of Deal, Bidder and Target Characteristics
1990-2004 vs. 2005-2016 (Complete Sample)*

In contrast, the relative size of bidder and target differs only insignificantly between both periods. Between 1990 and 2004, the relative size (deal value divided by the size of the

bidder) is about 26%, whereas it decreased to 21% between 2005 and 2016. The percentage of target shares held by the bidder before the offer is higher with 28.5% in the first period (1990 to 2004) compared to 22.1% in the second period (2005 to 2016). This may reflect the change in ownership structures toward more diversified institutional investors. However, relative to ownership structures in other countries, holdings by insiders in form of banks and other corporations remain relatively high in Japan (Franks et al., 2014).

Further, takeovers in the first period (1990 to 2004) relative to the second period (2005 to 2016) take longer to complete (165 vs. 113 days). With respect to the method of payment, we also observe some substantial changes between both periods. Since 2005, 56% of M&A transactions in Japan are “cash-only” deals. Between 1990 and 2004, “cash-only” was the method of payment in only 15% of the transactions. “Stock-only” as payment form declines from 68% to 39% for the periods before and after 2005, respectively. This result is similar to the development for the US where the fraction of “stock-only” bids was about 55% in the 1990s and dropped to about 33% at the beginning of the millennium as interest rates were low and cash was easily available (Betton et al., 2008). Alexandridis et al. (2017) find for the US that stocks decline as a method of payment. Subsequent to the financial crisis, bidders paid in 56% of the deals with stock (1990 to 2009) compared to only 38% of the cases before (2010 to 2015). They explain the rise of cash deals with the changes in US monetary policy, for example, by the high availability of liquidity and low cost of debt (Alexandridis et al., 2017).

Hostile takeovers among listed companies still seem uncommon in Japan as we observe only three hostile bids during the complete sample period (1990 to 2016). One explanation is that cultural differences continue to be important (Yoshikawa et al., 2007; Ueda, 2015). However, this may also indicate that the market for corporate control in Japan is still different and possibly less competitive than in capital market oriented systems where underperforming companies frequently have to fear a hostile takeover in order to restructure the company and to

replace the existing underachieving management. Thus, an interesting question is how much Japan still deviates from other countries such as the US or the UK, but also from Germany, which to some extent was similar to Japan for many decades and also embarked on some substantial reforms.⁴

With respect to bidder characteristics, the leverage-ratios in the 1990 to 2004 period are higher with 29.5% relative to the 19.1% in the 2005 to 2016 period. This is significantly lower and may suggest a change from a higher to a lower bank-dependency. Bidders, on average, have a higher return on assets (ROA) between 2005 to 2016 compared to the 1990 and 2004 period as their profitability increases from 2.5% to 4.0%, which may also be explained by cultural and historical conditions (Kester, 1992). Furthermore, the cash holdings of bidders increased in the second period. This does not support our expectation at this point, as improvements in corporate governance should lead to a reduction of agency problems by lowering cash holdings (LaPorta et al., 2000; Kato et al., 2017). Focusing now on targets, we observe that they also increased their cash holdings in the second period from 28.5% to 33.5%, an observation that supports previous studies (e.g., Aoyagi and Ganelli, 2017). They are younger (about 10 years compared to about 14 years) when announcing the takeover attempt between 1990 and 2004 compared to the 2005 to 2016 period. After 2004 (before 2005) targets have a significantly higher market-to-book (M/B) ratio of 1.9 (1.3) with a median of 1.0 (0.8) and a higher median ROA of 2.1% (1.0%). The leverage-ratio decreases from 28.0% to 23.0% from the first to the second period.

4.3 Univariate Results Robustness Check

⁴ Traditionally, Germany is known for its special universal banking and financial systems (Bessler and Drobetz, 2015) and its specific corporate governance system (Kotz and Schmidt, 2016), which both are faced with a considerable reform agenda within Germany and the European Union (Aoyagi and Ganelli, 2014).

As a robustness check, we again compare the two periods from 1990 to 2004 and 2005 to 2016, but this time focusing only on the transactions where bidders and targets have different advisors (*Table 6*), which is the usual case in most countries. Bidder, target, and deal characteristics differ as for the whole sample (*Table 5*).

Table 6 – Univariate Comparison of Deal, Bidder and Target Characteristics 1990-2004 vs. 2005-2016 (Only Announcements with Different Financial Advisor)

4.4 Consequences of Having the Same Financial Advisor

We now analyze the case where bidder and target share the same financial advisor, which we primarily observe in Japan. We focus only on the 1998 to 2004 period, as the phenomenon is most prominent during this period with about 80% of these transactions in our sample are occurring here. We begin as before by analyzing announcement returns followed by comparing bidder, target and deal characteristics.

Regarding takeover announcement returns (*Table 4a*, Panel C), abnormal returns for the bidder are larger in transactions with the same financial advisor with a mean (median) of 1.70% (1.50%), but the difference is insignificant, suggesting that both groups are not statistically different. The target shareholders' abnormal returns are positive in both cases, but the difference is insignificant, again suggesting no difference between these two groups of M&As. Although we expected some differences due to agency problems disadvantaging either bidder or target, we do not find empirical support for this notion, suggesting that this unique constellation also has a unique outcome. The same results hold for our analysis of the longer event window (-20; +20). Again, the difference of abnormal returns between the two sub-groups is insignificant (*Table 4b*, Panel C).

Next, we analyze and compare bidder, target, and deal characteristics for the 1998 to 2004 period in which bidders and targets either employ the same or different financial advisors

(Table 7). The deals with the same advisor have a higher relative size of 0.5 compared to 0.2. “Stock-only” is the dominant method of payment with 86% of the deals. Only 3% of the transactions with the same financial advisor are “cash-only” deals. Furthermore, bidders involved in these deals are smaller, have higher cash-holdings, with 1.4 a lower M/B ratio, and are younger compared to bidding companies in transactions where bidder and target do have different financial advisors. Target characteristics do not reveal significant differences. *Keiretsu* membership does not differ significantly with regard to having the same financial advisor. In general, we find substantial and significant differences in the univariate analysis in some deal characteristics in M&As with different and the same financial advisor.

Table 7 – Univariate Comparison of Deal, Bidder and Target Characteristics 1998-2004

Remarkably, the percentage of M&A transactions with bidders and targets sharing the same financial advisor is significantly lower in the second period (supporting H3a). Between 1990 and 2004, bidder and target share the same financial advisor in about 26% of the M&A transactions, whereas only 4% of the deals have the same advisor in the latter period (2005 to 2016). For the sample including also private targets the percentage of transactions where bidder and target share the same financial advisor decreases from 18% to 5% in the second period. Interestingly, and to some surprise, only in a few M&A transactions bidder and target are members of the same horizontal *keiretsu* group. Hence, M&As within the *keiretsu* groups are less important and do not dominate our overall results and our findings for M&As with the same financial advisor.

4.5 Interpretation of Univariate Results

Overall, the reform of the Japanese commercial code and the changes in corporate governance regulation have affected the market for corporate control and the characteristics of M&A transactions. Comparing the two periods, firm and deal characteristics differ considerably. Legal changes and institutional transformation triggered these developments (Franks et al.,

2014). Consistent with the findings of Kato et al. (2017), *Keiretsu* membership seems to have lost their importance and dominance over time. Instead, more and more foreign investors hold shares in Japanese listed corporations at the Tokyo Stock Exchange. Additionally, the proportion of debt and thus the bank-dependency has decreased, at least when measured by the leverage-ratio, supporting our first hypothesis (H1).

Despite all efforts, the improvements in corporate governance in Japan were low (Kaufmann et al., 2009; Ueda, 2015). After legal reforms and some corporate governance improvements, Japan's corporate governance quality is above the average of the OECD but still lower compared to most G-7 countries at the end of 2012 (Aoyagi and Ganelli, 2017). In line with these findings, Kato et al. (2017) observe declining cash holdings in the period from 1990 to 2000, which they attribute to corporate governance improvements. They also report an increase of cash holdings of Japanese firms since the beginning of the current century. Aoyagi and Ganelli (2017) also interpret the high cash holdings of Japanese companies as a sign of weak corporate governance and agency problems together with a lack of profitable investment opportunities. While the fact that we observe higher M&A activity in the second period (2005 to 2016) is indicating a more active market for corporate control and, thus, supporting our second hypothesis (H2), the lack of hostile takeovers is not. One reason for the occurrence of the phenomenon bidder and target sharing the same financial advisor is the Asian financial crisis in 1997 that even intensified the ongoing Japanese financial crisis. Banks and Japanese corporations were eagerly trying to stabilize the financial system because of net sales of foreign investors (Karolyi, 2002). Domestic investment bank prearranged mergers were one measure to deal with possible bankruptcy problems. It is worth mentioning that transactions with bidder and target sharing the same financial advisor quickly declined in Japan after 2004. Corporations, banks, and investors seemed to recognize potential conflicts of interest and lead to an institutional change (Van Schaik, 2008). With respect to private targets, our analysis reveals that these transactions continued for some time as we still observe several transactions with public bidders

and private targets sharing the same financial advisor in 2005 and 2006. It is possible that lower attention and a lack of analyst coverage for private companies is one reason that transactions with the same financial advisor diminished more slowly. Another reason is that the financial problems of private companies continued longer requiring some prearranged mergers for solving the problems. More recently, however, these kind of deals have revived again between 2010 and 2013 for public targets and between 2013 and 2016 for private targets, which is an important observation, underscoring the need to better understanding the benefits and costs of using a common advisor in M&A transactions, which we analyze in the next section.

5. MULTIVARIATE ANALYSIS

In section 5.1, we analyze the determinants of the abnormal returns (CARs) for the target. We follow Agrawal et al. (2013) who investigate the reasons and consequences of having the same financial advisor in M&A transactions for the US and apply their ideas in our cross-sectional regression analysis for M&As in Japan. Next, we analyze the impact of having the same financial advisor on the time of deal completion in section 5.2., and the influence on the size of the premium in section 5.3. We evaluate the likelihood that bidder and target choose the same financial advisor in a probit regression framework in section 5.4. Finally, we perform some robustness checks in section 5.5.

5.1 Effects of the same Financial Advisor on Announcement Returns

We conduct several OLS regressions on the cumulated abnormal returns (CARs) of the target company to determine the factors for their higher CARs that we observe in the second period (2005 to 2016). The results we present in *Table 8*.

Table 8 – OLS Regressions on CAR of the Target (-20; +20)

All six models reveal that the method of payment significantly affects the size of the announcement returns. If “cash only” is the method of payment, the announcement returns are roughly six percent higher than otherwise, which is in line with prior studies (Alexandridis et al., 2017). As we observe in the second period that more transactions are “cash only” deals, one possible interpretation for the higher CARs around an M&A announcement is the increase in cash as the preferred method of payment. As we have no benchmark to determine which premium is high or low, it is also possible that the lower premium and the more stock deals or combined cash/stock deals during the first period are the results of financial difficulties at the target and the rescue acquisition by the bidder. This requires further analysis. In addition, neither the dummy variable for transactions that occurred after the introduction of the corporate governance principles nor the coefficients for the same financial advisor are significant. In addition, the models containing the interaction term of these two variables (models I to IV) do not exhibit significant coefficients. Thus, we cannot support hypothesis H3c. Further, *keiretsu* membership does not have an impact on the size of the announcement returns, which confirms the findings of Mehrotra et al. (2011). Relative size seems to have an impact only if we do not control for bidder and target characteristics. In the full model, however, relative size does not have a significant influence. Highly significant are the coefficients for leverage of the target. Even if the magnitude of the coefficients is very small, it may indicate that some targets had overextended the use of debt.

5.2 Effects of the Same Financial Advisor on the Time of Deal Completion

In *Table 9*, we present the different models for the time it takes to complete the deal. We conduct several OLS regressions with and without using bidder and target controls. Additionally, we use two-stage least squares (2SLS) regression models to identify the factors influencing the time of deal completion. For the 2SLS regressions, the dummy variable “Both parties have multiple advisors” functions as an instrument. One possible explanation according to Agrawal et al. (2013) is that an additional adviser may be able to reduce concerns about an unfair outcome, for example, in price negotiations. Accordingly, we expect that the choice of using a common adviser positively relate to one or both parties’ using multiple advisers. In all models, the main explanatory variable of interest is the dummy variable for having the same financial advisor.

We find that transactions with the same financial advisor do not take longer to complete as the sign of the coefficient in model I, II, V, and VI is positive, whereas the sign of the coefficient of the other two models is negative. However, the large p-values of the endogeneity test in the 2SLS models indicate that the OLS models should be preferred here. All coefficients are insignificant, which indicates that choosing the same financial advisor does not essentially influence the time to deal completion. With this interpretation of our results, we cannot support hypothesis H3b. Therefore, the results for Japan are opposite to the ones reported in Agrawal et al. (2013) for the US, indicating that the situations for these M&A are different in both countries. Consequently, an alternative interpretation is that we observe common advisors in Japan when the target is in financial trouble and the bank prearranges the acquisition as it does business with both companies. In this case, it is also possible that the banks get only actively involved in this restructuring to minimize its own losses from non-performing loans. In this case, it should take less time to complete the deal, as there is no time to waste to prevent bankruptcy. Hence, with this explanation we cannot reject H3b.

Table 9 – OLS and 2SLS Regressions on time to deal completion

The same results hold for deals announced after the year 2004 as for them it takes a shorter period to complete and deal values as well as the methods of payment affect the time of deal completion. Larger deals take longer to complete, whereas cash deals require a shorter time span for completion. This is what we expect, as larger deals should be more complex and more difficult issues demanding detailed solutions. The coefficient for relative size has a positive sign and is highly significant in model III and IV. A higher relative size (e.g. a value nearer to one) indicates that bidder and target are of similar size and should have similar negotiation power, resulting in more lengthy negotiations. This also suggests that bidder and target are most likely unrelated in a parent-subsidary constellation. The results for the method of payment are also in accordance with financial theory as the bidder alone bears the risk in a “cash-only” transaction. Thus, the target shareholders should be less inclined to vote against the transaction. Transactions conducted in the same industry could take longer to complete due to monopoly power issues. Interestingly, we only find support for that notion in the models that do not control for bidder and target characteristics. The full model IV does not show significant values for the same industry dummy.

5.3 Effects of the Same Financial Advisor on Premium Size

In most countries, the constellation in which the same investment bank acts as advisor to both, bidder and target, is unconceivable as this violates good corporate governance standards (Agrawal et al., 2013). Because of these potential conflicts of interests, usually bidder and targets quickly sign the best available advisors to have them on their side instead on the other side. However, it is also possible that this constellation is the most cost efficient way of closing a deal, making all participants better off. This might be the case, for example, if the advisor has sufficient private information on both bidder and target and both bidder and target have some trust in the advisor. This interpretation finds some support by the observation that the abnormal

returns do not differ between the two groups in the univariate analysis, indicating that the target's shareholders get a fair deal. However, the interpretation may change when these are bank prearranged deals preventing bankruptcy. In this case, we would not expect a lower premium, supporting H3c.

With respect to the size of the premium, our regression results are different than expected. As in the 2SLS models before, we use the dummy variable “*both parties have multiple advisors*” as an instrument. We find at least some evidence that the premium is higher in transactions where the method of payment is “cash-only”, as four out of six models reveal significant positive coefficients for the explanatory “cash-only” dummy (*Table 10*). Our results also indicate that the deal value in general has some effects on the size of the premium as we find in three out of six models that deals with a higher value also provide higher premiums. This is consistent with the findings of Agrawal et al. (2013). Overall, having the same financial advisor seems to have, if anything, a weak influence on lowering the premium, as we only find support for that in the full 2SLS model where the coefficient for having the same financial advisor has a negative sign. Accordingly, we cannot support our third hypothesis (H3c).

Table 10 – OLS and 2SLS Regressions on the size of the premium

The reasoning is that the common advisor should favor the bidder, as the bidder is the surviving company. It also wants the deal completed as investment banks earn the fee only when the deal is closed. Consequently, the common advisor will recommend the bidder to bid low while encouraging the target to accept the bid (Agrawal et al., 2013). Therefore, the premium in a transaction where bidder and target share the same financial advisor should be lower than in deals with separate advisors. Moreover, the results indicate that the bidding company is less likely to pay a higher premium if the target has a high leverage or is financially constrained. This should always be the case if the capital structure of the newly merged company results in a downgrade of the debt of the newly merged firm and eventually ends up in financial distress

(Betton et al., 2008; Aktas et al., 2017; Bhabra et al., 2017). The managers of the bidding company should value the target at a lower level and be less willing to pay a high premium. Overall, a lower premium is consistent with a number of different explanations.

5.4 Determinants of Bidder and Target Sharing the same Financial Advisor

If the choice of having the same financial advisor favors the bidder more than the target, the relevant question is which of the variables have any explanatory power to support this scenario. Our probit regression results (*Table 11*) suggest that two variables affect the choice of sharing the same financial advisor in M&A transaction: relative size and market-to-book ratio of the target. A transaction with a higher relative size (deal value divided by the size of the bidder) between bidder and target has a higher probability that the bidder and the target share the same financial advisor. This is also in line with the findings of Agrawal et al. (2013), but maybe for reasons that do not apply to Japan. Here, it seems more likely that bidder and target share the same financial advisor if the target is not highly valued by the market, as evidenced by having a high market-to-book ratio. This is usually the case when the target has financial problems and a financial advisor prearranged acquisition is the intended solution by all parties. Based on this interpretation, we find support of hypothesis H3d.

Table 11 – Probit Regressions on same financial advisor

5.5 Multivariate Results Robustness Checks

As robustness check, we test the following alternative variable definitions in the regression analysis by using: (1) the percentage of cash payment instead of an all-cash dummy. (2) A toehold dummy in place of the percentage of target shares held prior to the announcement. (3) The natural logarithm of the market value of the target rather than the deal value. (4) Debt to enterprise value instead of book leverage (debt to total assets). Finally (5), the return on equity in place of return on assets. These alternative control variables should not change the results

substantially and significantly (Leamer, 1983). Additionally, we restrict this analysis to only domestic deals. However, as the results differ neither qualitatively nor significantly. As all of the results are robust to all of these alternative definitions supporting our initial findings, we do not report them here.

6. CONCLUSION

This study analyzes the effects of corporate governance reforms in Japan on the market for corporate control and M&A activity. The ownership structure of Japanese companies became less bank-dominated and more international and M&A activity increased since the late 1990s. Still, the market for corporate control has room for improvement and hostile takeovers still occur seldom. However, deal, bidder, and target characteristics of M&As changed significantly subsequent to the corporate governance reforms. Although cross-shareholdings initially declined to a lower level, they stayed rather stable during the last decade. Bank debt-dependence also dropped but the main banks continue to play an important monitoring role. The wealth effects for target shareholders significantly increased in Japan since 2004 and the fraction of cash deals increased as well.

The deal value and the method of payment are the most relevant factors explaining the time to deal completion and the size of the premium. Higher value deals require a higher premium and a longer time to complete. Cash deals close faster than stock deals. After the introduction of new corporate governance rules, relatively less bidders and targets share the same financial advisor. Interestingly, these deals take the same time to complete, which is in contrast to the US (Agrawal et al., 2013), and bidders also do not pay a lower premium to target shareholders. Differences we find are that deals with higher relative size are more likely to have the same financial advisor and deals where the target has a high M/B ratio are less likely to have

the same financial advisor. This supports the observation that during the late 1990s banks often prearranged M&A transactions between stronger bidders and weaker and financially troubled targets to protect their own interests as creditors.

Overall, the empirical evidence suggests some positive effects of the corporate governance reforms in Japan in that the market for corporate control became more active since 2004. Hence, the regulatory changes had important effects on the financial and corporate governance system in Japan and in particular on M&A activities. However, it takes some time until new political goals and regulatory changes are fully absorbed and reflected in the financial and corporate governance systems. Japan is no exception to this rule. Whether this relatively slow development is attributable to the economic problems in Japan during the last two decades requires further analysis. In total, we observe some progress in financial market and corporate governance structures towards a more capital market oriented regime but with still considerable differences remaining to the US and UK. However, in most recent transactions bidder and target use different financial advisors showing some progress toward international corporate governance standards in Japan with less creditor but more shareholder focus.

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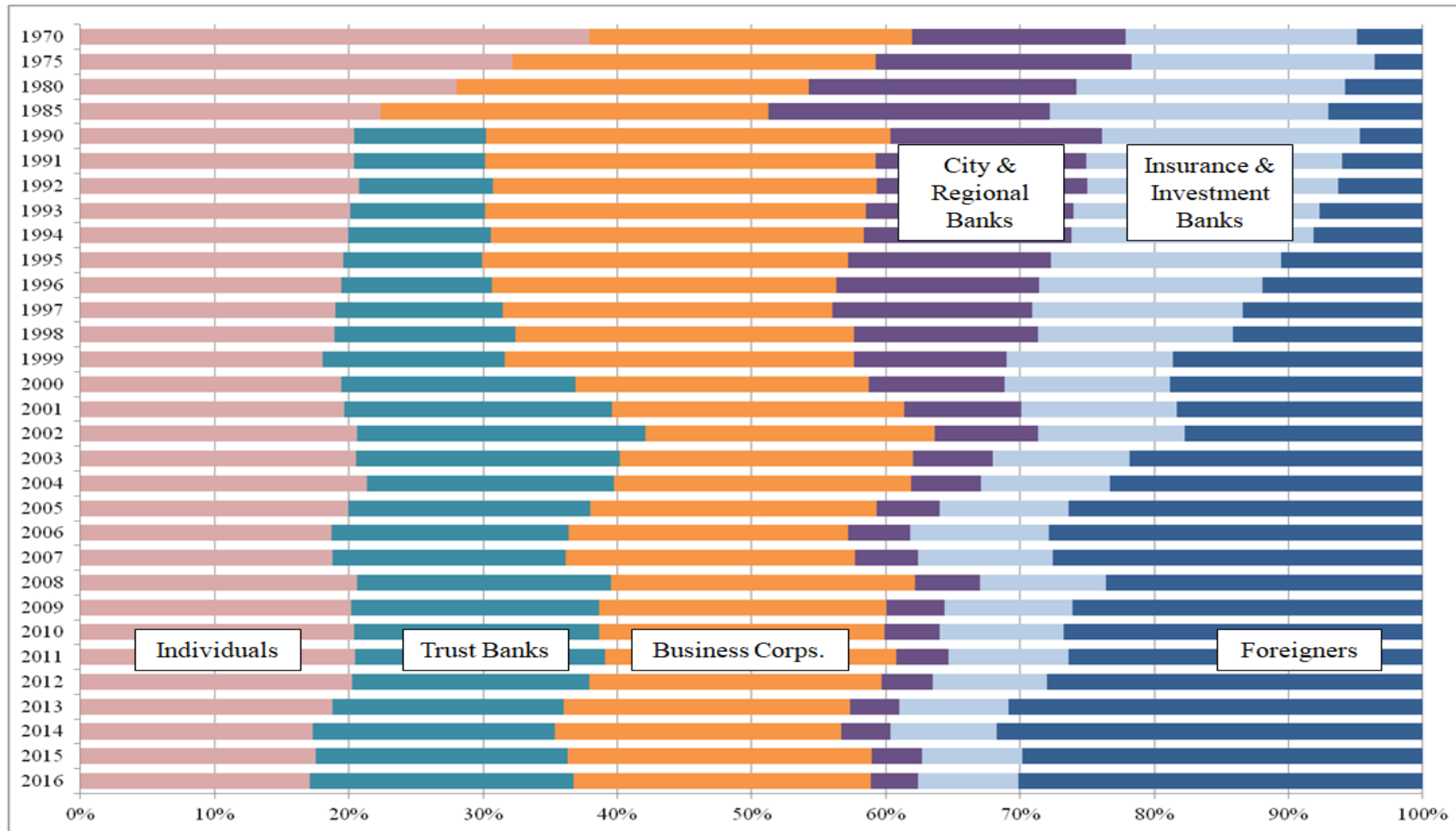
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Tables and Figures

Figure 1: Development of Share Ownership by Type of Investor

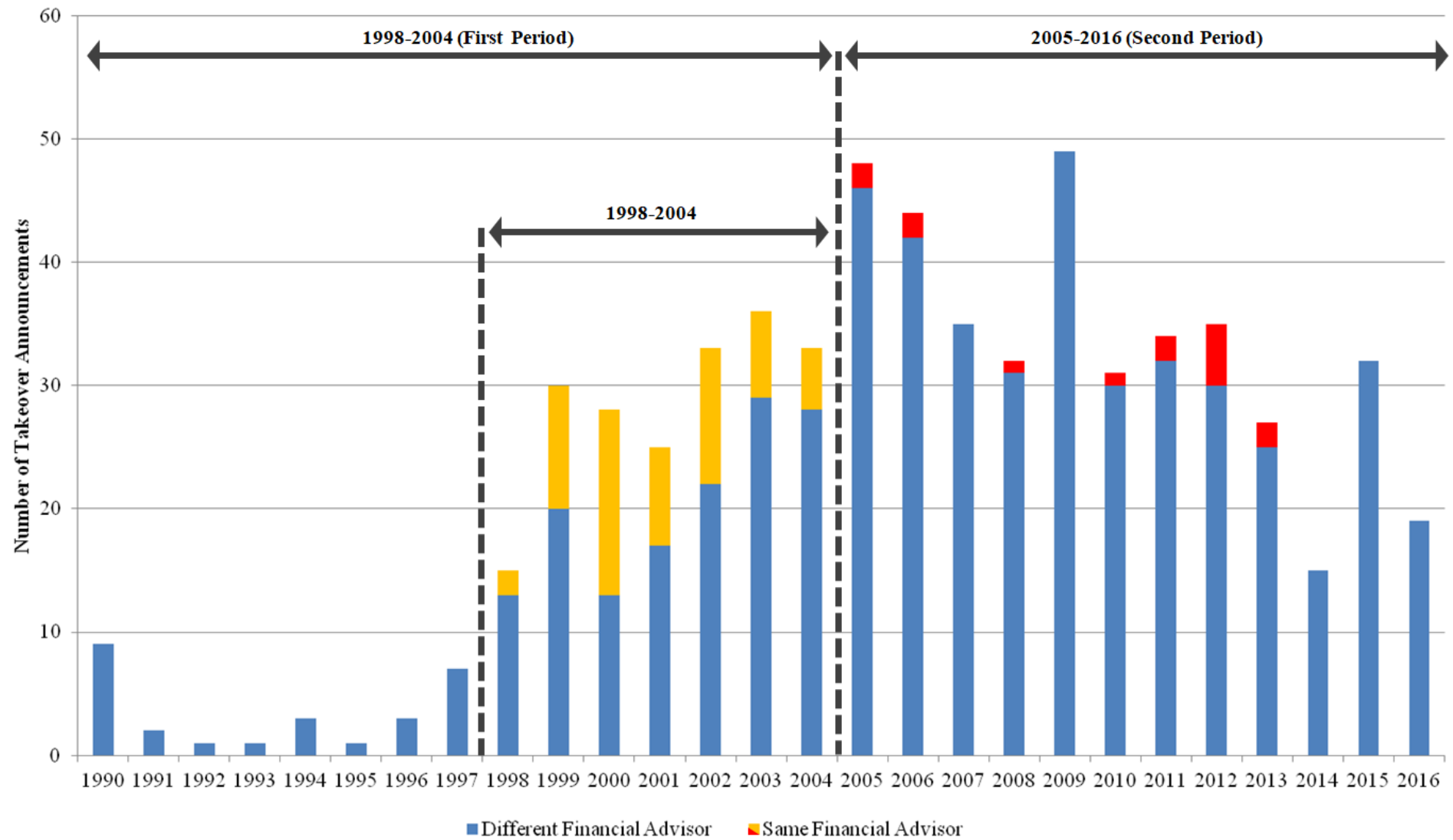
This figure presents the development of the ownership structure at the Tokyo Stock Exchange (TSE) in % of total market capitalization, as of March each year.



Source: Tokyo Stock Exchange (2017). Before 1990, one bar captures a period of five years. From 1990 on, every single year is depicted.

Figure 2a: M&A Sample distribution per Year – Public Companies

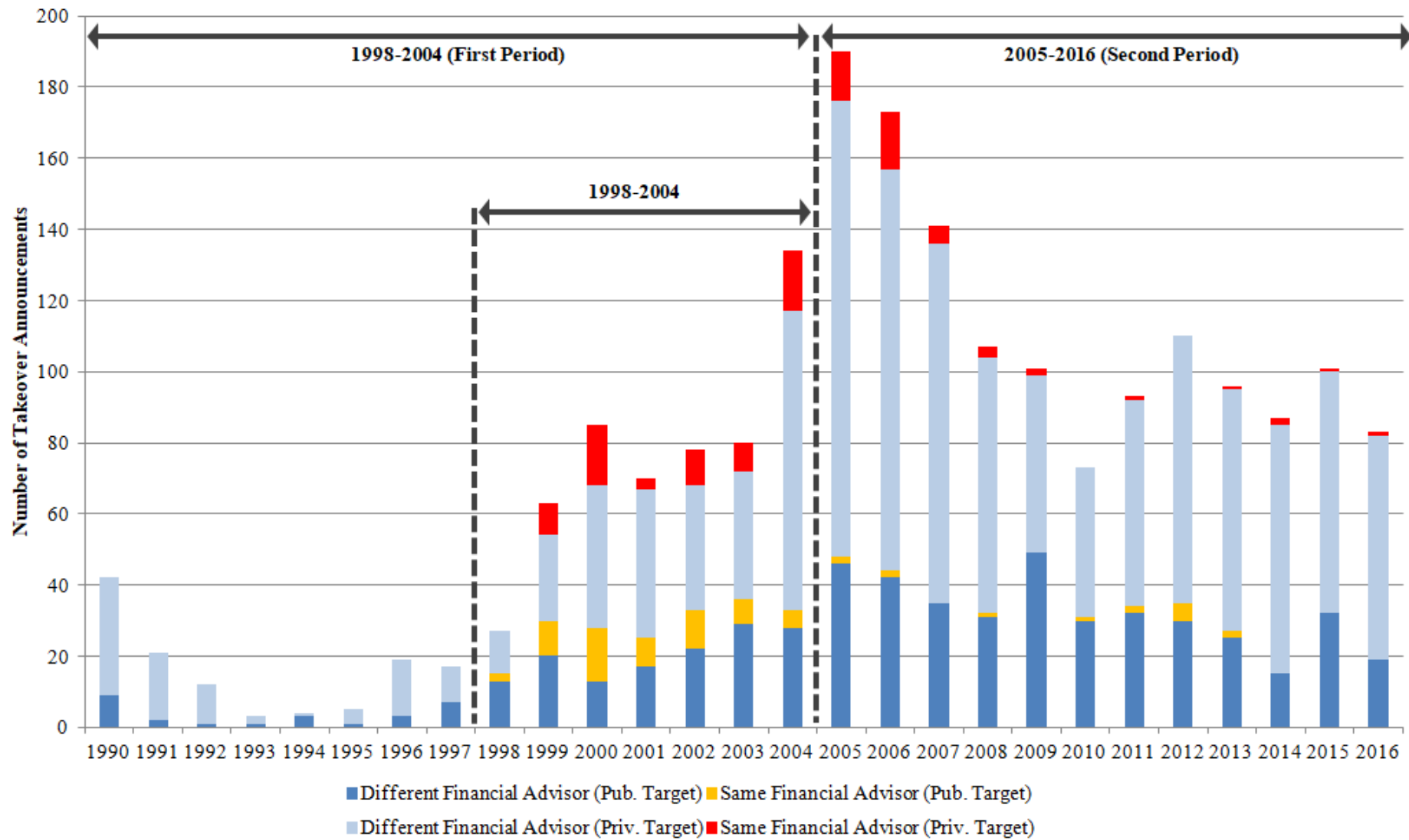
This figure presents the distribution of the total sample per year as well as the takeover announcements having the same financial advisor in Japan.



Source: Thomson Reuters Dealscreener.

Figure 2b: M&A Sample distribution per Year – Public and Private Companies

This figure presents the distribution of the total sample per year as well as the takeover announcements having the same financial advisor in Japan.



Source: Thomson Reuters Dealscreener.

Figure 3: Cumulated Abnormal Return (CAR) for the 41 day event window

This figure presents the CARs of M&A for the total sample for the periods 1990-2004 and 2005-2016 for bidders and targets in Japan.

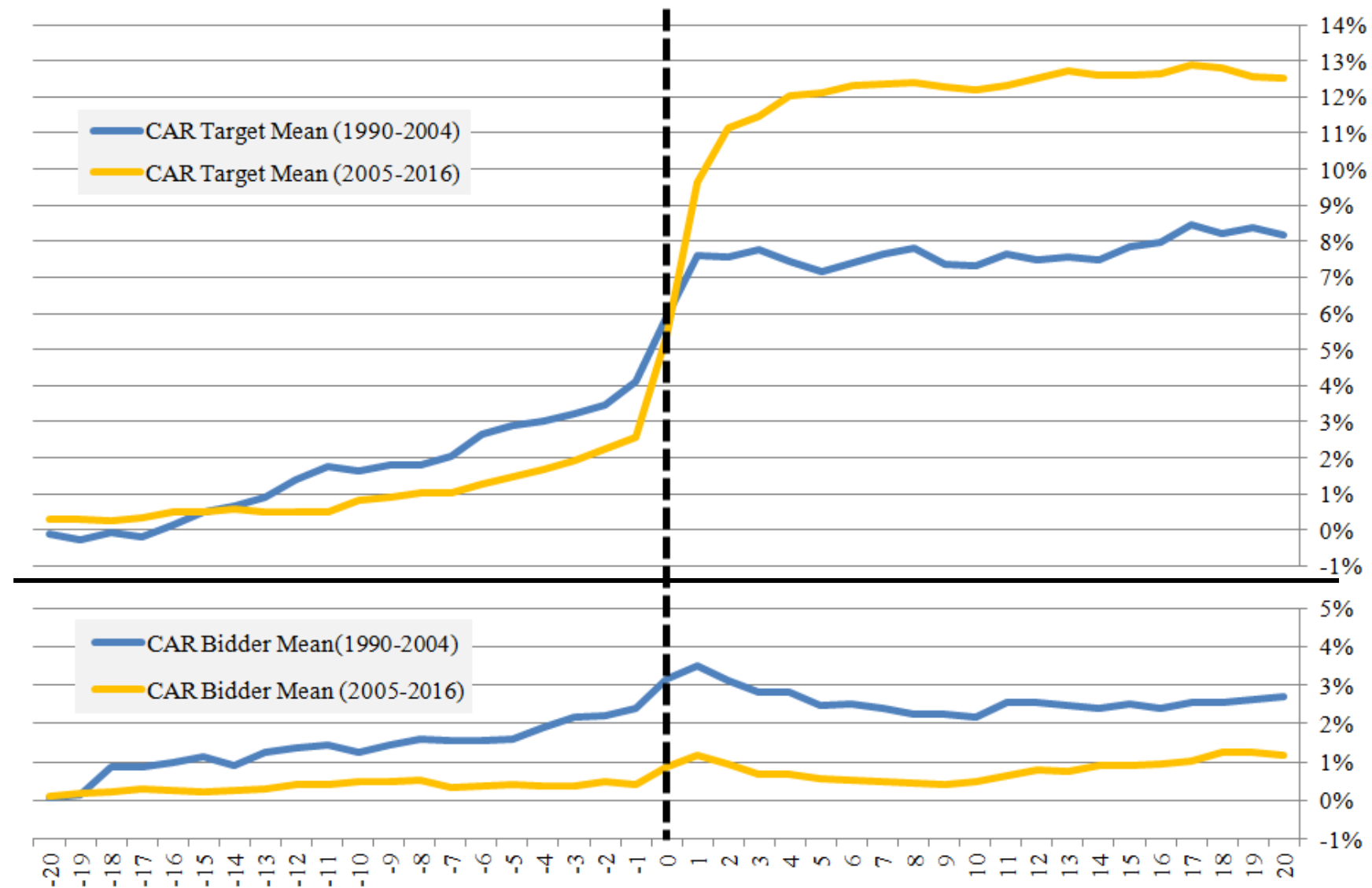


Figure 4: Buy-and-Hold Abnormal Return (BHAR) one year after the announcement

This figure presents the BHARs of M&A for the total sample for the periods 1990-2004 and 2005-2016 for bidders and targets in Japan.

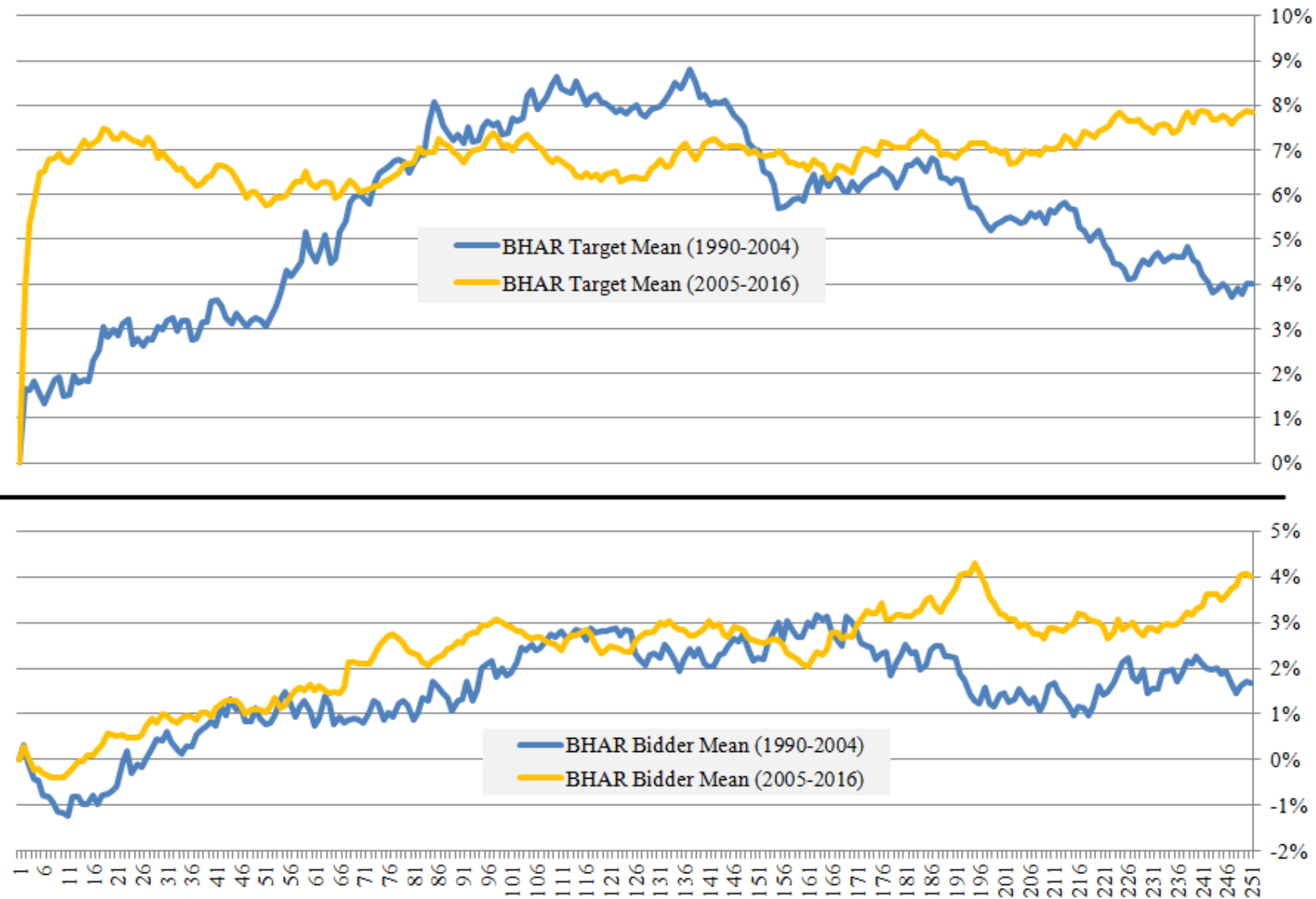


Table 1: M&A League Tables of Transactions with Japanese Bidder

Panel A: Investment Banks and Financial Advisors in Japanese M&As (1998-2004)					
Rank	Name	Deals N	Market Share %	Rank Value in \$ Mil.	Same Advisor Transactions N
1	Goldman Sachs & Co	14	69.20	199,648.13	0
2	BoA Merrill Lynch	12	43.50	125,449.92	0
3	Nomura*	87	34.20	98,662.28	21
4	Daiwa Sec. Group Inc*	32	29.80	85,972.46	8
5	JP Morgan	9	28.10	81,064.02	0
6	Arthur Andersen	2	24.60	70,856.24	0
7	Morgan Stanley	9	13.60	39,295.79	0
8	Mizuho Fin. Group*	29	11.40	32,995.04	10
9	Mitsubishi UFJ Fin. Group*	25	9.40	26,990.65	3
10	Citi	5	3.30	9,382.58	0
11	SMFG (Nikko Cordial)*	34	2.10	5,952.23	19
12	Shin Nihon Ernst&Young*	9	1.30	3,650.26	1
13	KPMG*	18	1.20	3,590.29	1
14	Deloitte	7	0.70	2,163.52	0
15	GCA Corp	4	0.60	1,703.20	0

Panel B: Investment Banks and Financial Advisors in Japanese M&As (2005-2016)					
Rank	Name	Deals N	Market Share %	Rank Value in \$ Mil.	Same Advisor Transactions N
1	Nomura*	189	44.30	169,457.41	3
2	BoA Merrill Lynch	26	40.10	153,545.24	0
3	Mizuho Financial Group*	114	37.70	144,213.71	9
4	JP Morgan	22	36.80	140,708.27	0
5	Morgan Stanley	60	35.20	134,751.71	0
6	Goldman Sachs & Co	32	32.00	122,478.95	0
7	Daiwa Sec. Group Inc*	135	26.40	100,987.79	1
8	UBS	15	24.90	95,375.93	0
9	Lazard	11	21.20	81,260.28	0
10	Mitsubishi UFJ Fin. Group	51	17.70	67,723.49	0
11	Citi	28	15.60	59,825.96	0
12	SMFG (Nikko Cordial)	101	15.10	57,615.14	0
13	Deutsche Bank	10	14.10	54,126.98	0
14	The Raine Group LLC	2	13.70	52,390.71	0
15	Credit Suisse	9	8.10	31,148.34	0

This table presents the top 15 investment banks and financial advisors involved in takeovers with Japanese bidders in the period 1998-2004, the period common advisory seems to occur quite often, and the period 2005-2016, the period after various corporate governance changes. * denotes the investment bank which is involved in transactions where bidder and target share the same financial advisor. Nikko Cordial became a wholly owned direct subsidiary of Sumitomo Mitsui Financial Group (SMFG) in October 2016. Total market share sums up to more than 100% as bidder and target can have multiple financial advisors in one transaction.

Table 2: Sample Distribution

Panel A: M&A announcements per year					
Year	Japan				
	Different Advisor		Same Advisor		Total
	N	%	N	%	N
1990	9	100.00%	0	0.00%	9
1991	2	100.00%	0	0.00%	2
1992	1	100.00%	0	0.00%	1
1993	1	100.00%	0	0.00%	1
1994	3	100.00%	0	0.00%	3
1995	1	100.00%	0	0.00%	1
1996	3	100.00%	0	0.00%	3
1997	7	100.00%	0	0.00%	7
1998	13	86.67%	2	13.33%	15
1999	20	66.67%	10	33.33%	30
2000	13	46.43%	15	53.57%	28
2001	17	68.00%	8	32.00%	25
2002	22	66.67%	11	33.33%	33
2003	29	80.56%	7	19.44%	36
2004	28	84.85%	5	15.15%	33
2005	46	95.83%	2	4.17%	48
2006	42	95.45%	2	4.55%	44
2007	35	100.00%	0	0.00%	35
2008	31	96.88%	1	3.13%	32
2009	49	100.00%	0	0.00%	49
2010	30	96.77%	1	3.23%	31
2011	32	94.12%	2	5.88%	34
2012	30	85.71%	5	14.29%	35
2013	25	92.59%	2	7.41%	27
2014	15	100.00%	0	0.00%	15
2015	32	100.00%	0	0.00%	32
2016	19	100.00%	0	0.00%	19
Total	555	88.38%	73	11.62%	628

Panel B: M&A announcements per Target Country					
Target Country	Japan				
	Different Advisor		Same Advisor		Total
	N	%	N	%	N
Australia	7	100.00%	0	0.00%	7
Belgium	1	100.00%	0	0.00%	1
Canada	2	100.00%	0	0.00%	2
Cayman Islands	1	100.00%	0	0.00%	1
France	5	100.00%	0	0.00%	5
Germany	1	100.00%	0	0.00%	1
Hong Kong	3	100.00%	0	0.00%	3
India	1	100.00%	0	0.00%	1
Italy	1	100.00%	0	0.00%	1
Japan	473	86.63%	73	13.37%	546
Malaysia	3	100.00%	0	0.00%	3
Netherlands	2	100.00%	0	0.00%	2
Poland	1	100.00%	0	0.00%	1
Singapore	6	100.00%	0	0.00%	6
South Africa	2	100.00%	0	0.00%	2
South Korea	2	100.00%	0	0.00%	2
Sweden	2	100.00%	0	0.00%	2
Switzerland	1	100.00%	0	0.00%	1
Thailand	1	100.00%	0	0.00%	1
UK	13	100.00%	0	0.00%	13
United States	27	100.00%	0	0.00%	27
Total	555	88.38%	73	11.62%	628

Panel C: M&A announcements per Target Industry					
Target Industry	Japan				
	Different Advisor		Same Advisor		Total
	N	%	N	%	N
Business Serv.	74	92.50%	6	7.50%	80
Electronic Equ.	39	88.64%	5	11.36%	44
Chemicals	37	92.50%	3	7.50%	40
Ind. Machinery	38	92.68%	3	7.32%	41
Wholesale Trade	35	94.59%	2	5.41%	37
Misc. Wholesale	20	74.07%	7	25.93%	27
Food Prod.	22	88.00%	3	12.00%	25
Measur., Analyz.	20	95.24%	1	4.76%	21
Food Stores	17	85.00%	3	15.00%	20
Building Constr.	11	55.00%	9	45.00%	20
Metal Industry	14	82.35%	3	17.65%	17
Misc. Retail	18	100.00%	0	0.00%	18
Paper Products	12	92.31%	1	7.69%	13
Transport. Equ.	14	100.00%	0	0.00%	14
Stone,Clay,Glass	10	71.43%	4	28.57%	14
Eating, Drinking	12	85.71%	2	14.29%	14
Sp. Construction	12	100.00%	0	0.00%	12
Fab. Metal Prod.	10	83.33%	2	16.67%	12
Warehousing	12	100.00%	0	0.00%	12
Engin. Research	10	83.33%	2	16.67%	12
Textile Mill Pro.	11	100.00%	0	0.00%	11
Communications	9	100.00%	0	0.00%	9
Apparel, Acces.	8	88.89%	1	11.11%	9
Home Furniture	8	88.89%	1	11.11%	9
Motion Pictures	9	100.00%	0	0.00%	9
Other	73	82.95%	15	17.05%	88
Total	555	88.38%	73	11.62%	628

This table presents the distributional characteristics of our sample. Deals with the same advisor are takeover deals where bidder and target consult the same financial advisor or the same investment bank. Panel A reports the number of deals with the same advisor in each year. Panel B differentiates the deal announcements by target country. Panel C presents the distribution of the sample by target industry based on the 2-digit SIC code.

Table 3: Overview Bidder and Target Announcement Returns

Cumulated Abnormal Returns (CARs) in Japan and around the World							
Study	Years	Country/Region	No of obs. (Bidder)	No of obs. (Target)	Event Window	CAR Bid- der	CAR Tar- get
Our research	1990-2004	Japan	178	178	[-2;+2]	0.97%*	4.36%***
	2005-2016	Japan	369	369	[-2;+2]	0.59%*	9.19%***
Kang (1993)	1975-1988	Japan	119	102	[-1;+1]	0.51%*	9.42%***
Pettway/Yamada (1986)	1977-1984	Japan	50	16	[-1;+1]	0.82%	0.07%
Kang et al. (2000)	1977-1993	Japan	154	-	[-1;+1]	0.9%*	-
Mehrotra et al. (2011)	1982-2003	Japan	91	91	[-2;+2]	-0.01%	-0.02
Higgins/Beckmann (2006)	1990-2000	Japan	85	-	[-1;+1]	1.70%	-
Alexandridis et al. (2010)	1990-2007	Japan	182	182	[-2;+2]	2.45%***	7.86%***
Van Schaik (2008)	1993-2003	Japan	136	-	[-1;0]	1.37%	-
Zrilic/Hoshino (2007)	1993-2005	Japan	62	-	[-1;+1]	1.19%**	-
Hanamura et al. (2011)	2000-2007	Japan	377	377	[-1;+1]	1.17%***	8.15%***
Inoue (2009)	2003-2007	Japan	379	382	[-1;+1]	1.16%**	8.18%**
Inoue (2013)	2003-2010	Japan	731	-	[-1;+1]	1.75%***	-
Betton et al. (2008)	1980-2005	US	15,987	9,298	[-1;+1]	14.61%	0.01%
Mager/Meyer-Fackler (2017)	1981-2010	Germany	338	-	[-1;+1]	0.00%	-
Gerke et al. (1995)	1987-1992	Germany	105	19	[-1;+1]	-0.06	2.24%***
Alexandridis et al. (2010)	1990-2007	Europe (excl. UK)	212	212	[-2;+2]	1.65%***	9.51%***
	1990-2007	UK	354	354	[-2;+2]	-1.58%***	14.7%***
	1990-2007	US	3,171	3,171	[-2;+2]	-1.34%***	21.13%***
Martynova/Renneboog (2006)	1993-2001	Germany	358	358	[-1;+1]	0.73%*	4.44%***
	1993-2001	Europe	2,109	760	[-1;+1]	0.72%***	12.47%***

Table 4a: Bidder and Target Announcement Returns for the 5 day event window

Cumulated Abnormal Returns (CARs) around the Takeover Announcement			
Panel A			
	1990-2004	2005-2016	Difference
<i>Bidder</i>			
Mean	0.97%	0.59%*	-0.38%
Median	0.67%	0.37%	-0.29%
Std.dev.	7.36%	5.03%	
N	178	369	
<i>Target</i>			
Mean	4.36%***	9.19%***	4.83%***
Median	4.46%***	9.58%***	5.12%***
Std.dev.	10.73%	10.73%	
N	178	369	
Panel B			
	1990-2004 different advisor	2005-2016 different advisor	Difference
<i>Bidder</i>			
Mean	0.70%	0.54%*	-0.16%
Median	0.49%	0.37%	-0.12%
Std.dev.	6.97%	4.97%	
N	130	356	
<i>Target</i>			
Mean	3.91%***	9.11%***	5.19%***
Median	4.18%***	9.56%***	5.38%***
Std.dev.	10.91%	10.67%	
N	130	356	
Panel C			
	1998-2004 different advisor	1998-2004 same advisor	Difference
<i>Bidder</i>			
Mean	0.85%	1.70%	0.86%
Median	0.56%	1.50%	0.94%
Std.dev.	6.93%	8.34%	
N	118	48	
<i>Target</i>			
Mean	4.44%***	5.55%***	1.11%
Median	4.28%***	6.62%***	2.34%
Std.dev.	11.04%	10.23%	
N	118	48	

This table presents the bidder announcement CAR (-2; +2) for bidders and targets. Cumulative abnormal returns are calculated based on market-adjusted returns using the country's Datastream value-weighted total market return index. Panel A is based on the full sample and compares the two periods 1990-2004 and 2005-2016. Panel B also compares 1990-2004 with 2005-2016 but only includes observations with different financial advisors. Panel C compares takeover announcements with different financial advisors with takeover attempts where bidder and target share the same financial advisor in the period 1998-2004 where the phenomenon is most present. Significance of the difference in mean and median is based on a two-sample t-test and a non-parametric Mann-Whitney U test. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Table 4b: Bidder and Target Announcement Returns for the 41 day event window

Cumulated Abnormal Returns (CARs) around the Takeover Announcement			
Panel A			
	1990-2004	2005-2016	Difference
<i>Bidder</i>			
Mean	2.71%**	1.18%	-1.53%
Median	2.18%***	1.00%	-1.18%
Std.dev.	14.99%	11.76%	
N	178	369	
<i>Target</i>			
Mean	8.19%***	12.53%***	4.34%**
Median	7.11%***	11.00%***	3.89%***
Std.dev.	23.69%	19.55%	
N	178	369	
Panel B			
	1990-2004 different advisor	2005-2016 different advisor	Difference
<i>Bidder</i>			
Mean	2.99%**	0.94%	-2.05%
Median	1.70%**	0.86%	-0.84%
Std.dev.	15.34%	11.42%	
N	130	356	
<i>Target</i>			
Mean	8.79%***	12.38%***	3.59%*
Median	6.38%***	10.98%***	4.60%**
Std.dev.	23.23%	19.58%	
N	130	356	
Panel C			
	1998-2004 different advisor	1998-2004 same advisor	Difference
<i>Bidder</i>			
Mean	3.04%*	1.95%	-1.09%
Median	1.70%*	4.00%	2.30%
Std.dev.	15.84%	14.11%	
N	118	48	
<i>Target</i>			
Mean	9.75%***	6.57%*	-3.18%
Median	8.06%***	8.52%	0.46%
Std.dev.	23.97%	25.08%	
N	118	48	

This table presents the bidder announcement CAR (-20; +20) for bidders and targets. Cumulative abnormal returns are calculated based on market-adjusted returns using the country's Datastream value-weighted total market return index. Panel A is based on the full sample and compares the two periods 1990-2004 and 2005-2016. Panel B also compares 1990-2004 with 2005-2016 but only includes observations with different financial advisors. Panel C compares takeover announcements with different financial advisors with takeover attempts where bidder and target share the same financial advisor in the period 1998-2004 where the phenomenon is most present. Significance of the difference in mean and median is based on a two-sample t-test and a non-parametric Mann-Whitney U test. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Table 5: Univariate Comparison of Deal, Bidder and Target Characteristics 1990-2004 vs. 2005-2016 (Complete Sample)

Deal, Bidder and Target Characteristics								
Variable	1990-2004			2005-2016			Difference in	
	N	Mean	Median	N	Mean	Median	Mean	Median
Deal Characteristics								
Deal value (ln)	227	4.02	3.82	401	4.39	4.22	0.37***	0.39**
Termination fee (Target)	3	2.25	2.81	20	3.22	3.10	0.97	0.30
Final premium (1 day)	209	6.93	5.20	375	26.35	19.52	19.43***	14.32***
Final premium (1 week)	209	8.20	6.84	379	27.99	21.13	19.80***	14.29***
Final premium (4 week)	210	10.14	6.09	380	28.78	22.03	18.64***	15.94***
Relative size	197	0.26	0.09	368	0.21	0.06	-0.04	-0.03
% held at announcement	102	28.48	30.89	190	22.06	22.26	-6.42***	-8.63*
Time to completion	227	164.99	139.00	401	112.80	82.00	-52.19***	-57.00***
Same fin. advisor Dum.	227	0.26	-	401	0.04	-	-0.22***	-
Success Dummy	227	1.00	-	401	1.00	-	0.00	-
Cross-border Dummy	227	0.11	-	401	0.15	-	0.04	-
Hostile deal Dummy	227	0.00	-	401	0.01	-	0.01	-
Cash-only deal Dummy	227	0.15	-	401	0.56	-	0.41***	-
Stock-only deal Dummy	227	0.68	-	401	0.39	-	-0.29***	-
Same industry Dummy	227	0.49	-	401	0.44	-	-0.05	-
One party in <i>keiretsu</i>	227	0.35	-	401	0.26	-	-0.10**	-
Same <i>keiretsu</i> group	227	0.05	-	401	0.03	-	-0.02	-
Bidder Characteristics								
Size Bidder (ln)	197	6.68	6.78	368	7.21	7.24	0.54***	0.46*
Cash/Cur. assets Bidder	193	28.39	24.51	366	31.71	27.72	3.33**	3.21
Cash/Tot. assets Bidder	194	14.68	12.14	366	17.25	13.45	2.57**	1.31
M/B ratio Bidder	191	1.70	1.17	365	1.93	1.35	0.23	0.18*
Leverage Bidder	199	29.51	29.48	369	19.07	15.76	-10.45***	-13.72***
Return on assets Bidder	192	2.54	1.75	364	4.04	3.61	1.50**	1.86***
Total debt to EV Bidder	194	149.44	73.60	366	75.54	35.71	-73.90***	-37.89***
Free float shares Bidder	31	70.32	75.00	373	74.51	80.00	4.19	5.00***
M&A years after IPO	171	10.96	14.00	342	16.88	21.00	5.92***	7.00***
Target Characteristics								
Size Target (ln)	175	4.44	4.18	339	4.48	4.32	0.04	0.13
Cash/Cur. assets Target	135	28.49	22.75	330	33.47	29.70	4.98**	6.95***
Cash/Tot. assets Target	136	15.86	11.50	334	19.07	15.29	3.22**	3.79***
M/B ratio Target	178	1.33	0.79	370	1.90	0.97	0.57**	0.18**
Leverage Target	189	28.04	27.35	382	22.99	20.54	-5.05***	-6.82**
Return on assets Target	185	0.61	1.02	380	0.31	2.09	-0.30	1.07***
Total debt to EV Target	135	185.01	61.11	330	106.17	42.73	-78.85**	-18.39
Free float shares Target	26	56.12	57.00	373	61.03	59.00	4.91	2.00
M&A years after IPO	39	9.72	7.00	48	13.96	11.00	4.24	4.00

This table presents univariate comparisons of all deal, bidder and target variables included in the probit regression models. The table compares the mean and median characteristics of deals in the period 1990-2004 with deals of 2005-2016, after the introduction of corporate governance improvements. Significance of the difference in mean and median is based on a two-sample t-test and a non-parametric Mann-Whitney U test. The significance of the difference in the dummy variables is tested with a difference of proportion test (z-statistic). ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Table 6: Univariate Comparison of Deal, Bidder and Target Characteristics 1990-2004 vs. 2005-2016 (Only Announcements with Different Financial Advisor)

Deal, Bidder and Target Characteristics								
Variable	1990-2004 (Diff. Advisor)			2005-2016 (Diff. Advisor)			Difference in	
	N	Mean	Median	N	Mean	Median	Mean	Median
Deal Characteristics								
Deal value (ln)	169	4.00	3.75	386	4.33	4.15	0.34**	0.40*
Termination fee (Target)	3	2.25	2.81	20	3.22	3.10	0.97	0.30*
Final premium (1 day)	152	6.23	5.12	360	25.61	19.45	19.38***	14.34***
Final premium (1 week)	151	6.90	5.80	364	27.28	20.98	20.38***	15.18***
Final premium (4 week)	152	9.10	3.37	365	27.99	22.22	18.89***	18.85***
Relative size	150	0.20	0.06	356	0.20	0.05	0.00	0.00
% held at announcement	80	28.28	30.89	185	22.61	23.65	-5.67**	-7.24
Time to completion	169	162.11	140.00	386	108.23	81.00	-53.88***	-59.00***
Same fin. advisor Dum.	169	0.00	-	386	0.00	-	0.00	-
Success Dummy	169	1.00	-	386	1.00	-	0.00	-
Cross-border Dummy	169	0.14	-	386	0.16	-	0.02	-
Hostile deal Dummy	169	0.00	-	386	0.01	-	0.01	-
Cash-only deal Dummy	169	0.19	-	386	0.57	-	0.38***	-
Stock-only deal Dummy	169	0.62	-	386	0.38	-	-0.25***	-
Same industry Dummy	169	0.48	-	386	0.42	-	-0.06	-
One party in <i>keiretsu</i>	169	0.38	-	386	0.25	-	-0.13***	-
Same <i>keiretsu</i> Group	169	0.05	-	386	0.03	-	-0.02	-
Bidder Characteristics								
Size Bidder (ln)	150	6.90	7.15	356	7.23	7.26	0.33*	0.11
Cash/Cur. assets Bidder	145	27.34	24.51	354	32.05	28.15	4.71***	3.64
Cash/Tot. assets Bidder	146	13.91	11.30	354	17.34	13.46	3.43***	2.16**
M/B ratio Bidder	146	1.81	1.22	353	1.95	1.35	0.14	0.13
Leverage Bidder	148	30.08	30.97	357	18.80	15.69	-11.28***	-15.28***
Return on assets Bidder	146	2.71	1.81	353	3.94	3.55	1.24*	1.74***
Total debt to EV Bidder	146	142.52	72.25	354	73.38	34.59	-69.14***	-37.66***
Free float shares Bidder	26	72.23	75.50	359	74.56	81.00	2.33	5.50**
M&A years after IPO	134	11.78	15.00	334	16.99	21.00	5.21***	6.00***
Target Characteristics								
Size Target (ln)	130	4.46	4.16	324	4.43	4.22	-0.04	0.06
Cash/Cur. assets Target	102	28.02	21.03	317	33.60	29.40	5.57**	8.37**
Cash/Tot. assets Target	103	15.44	11.03	320	19.15	15.29	3.71**	4.26***
M/B ratio Target	132	1.46	0.82	356	1.93	0.96	0.47	0.14
Leverage Target	139	28.00	27.06	367	22.74	20.38	-5.26***	-6.68**
Return on assets Target	138	1.01	1.17	365	0.14	2.07	-0.87	0.91**
Total debt to EV Target	102	180.71	54.31	316	107.95	39.34	-72.77**	-14.98
Free float shares Target	21	55.90	59.00	359	60.69	59.00	4.78	0.00
M&A years after IPO	30	8.27	7.00	46	13.78	11.00	5.52	4.00

This table presents univariate comparisons of all deal, bidder and target variables included in the regression models. The table compares the mean and median characteristics of only deals having a different financial advisor in the period 1990-2004 with deals of 2005-2016, after the introduction of corporate governance improvements. Significance of the difference in mean and median is based on a two-sample t-test and a non-parametric Mann-Whitney U test. The significance of the difference in the dummy variables is tested with a difference of proportion test (z-statistic). ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Table 7: Univariate Comparison of Deal, Bidder and Target Characteristics 1998-2004

Deal, Bidder and Target Characteristics								
Variable	Different Advisor			Same Advisor			Difference in	
	N	Mean	Median	N	Mean	Median	Mean	Median
Deal Characteristics								
Deal value (ln)	142	3.83	3.75	58	4.08	3.91	0.25	0.17
Termination fee (Target)	2	2.87	2.87	0	0.00	0.00	-2.87	-2.87
Final premium (1 day)	134	5.02	4.84	57	8.78	5.26	3.76	0.42
Final premium (1 week)	133	5.71	5.30	58	11.58	12.09	5.87	6.79
Final premium (4 week)	134	8.90	3.91	58	12.85	12.79	3.96	8.89**
Relative size	129	0.20	0.06	47	0.46	0.30	0.25***	0.24***
% held at announcement	73	27.89	30.84	22	29.19	32.45	1.30	1.62
Time to completion	142	151.96	140.00	58	173.36	137.00	21.40	-3.00
Same fin. advisor Dum.	142	0.00	-	58	1.00	-	1.00	-
Success Dummy	142	1.00	-	58	1.00	-	0.00	-
Cross-border Dummy	142	0.08	-	58	0.00	-	-0.08*	-
Hostile deal Dummy	142	0.00	-	58	0.00	-	0.00	-
Cash-only deal Dummy	142	0.19	-	58	0.03	-	-0.16***	-
Stock-only deal Dummy	142	0.65	-	58	0.86	-	0.21***	-
Same industry Dummy	142	0.47	-	58	0.52	-	0.05	-
One party in <i>keiretsu</i>	142	0.33	-	58	0.26	-	-0.07	-
Same <i>keiretsu</i> group	142	0.03	-	58	0.05	-	0.02	-
Bidder Characteristics								
Size Bidder (ln)	129	6.73	6.81	47	5.95	5.81	-0.78***	-1.00
Cash/Cur. assets Bidder	127	26.87	24.46	48	31.55	24.80	4.68	0.34
Cash/Tot. assets Bidder	128	13.31	11.20	48	17.03	13.60	3.72**	2.40**
M/B ratio Bidder	125	1.68	1.13	45	1.35	0.91	-0.34	-0.22**
Leverage Bidder	127	29.13	28.81	51	27.87	25.38	-1.26	-3.43
Return on assets Bidder	125	2.74	1.78	46	2.02	1.40	-0.72	-0.38
Total debt to EV Bidder	128	143.36	67.01	48	170.47	80.19	27.11	13.18
Free float shares Bidder	26	72.23	75.50	5	60.40	71.00	-11.83	-4.50
M&A years after IPO	112	12.23	15.00	37	8.00	8.00	-4.23***	-7.00
Target Characteristics								
Size Target (ln)	117	4.20	4.02	45	4.39	4.19	0.18	0.17
Cash/Cur. assets Target	100	28.09	20.59	33	29.94	26.05	1.85	5.46
Cash/Tot. assets Target	101	15.43	10.43	33	17.16	13.04	1.73	2.61
M/B ratio Target	120	1.38	0.77	46	0.96	0.63	-0.42	-0.15
Leverage Target	126	27.29	25.26	50	28.17	29.93	0.88	4.67
Return on assets Target	125	0.57	1.00	47	-0.58	0.62	-1.15	-0.38
Total debt to EV Target	100	180.91	53.87	33	198.30	100.45	17.38	46.58
Free float shares Target	21	55.90	59.00	5	57.00	52.00	1.10	-7.00
M&A years after IPO	21	9.90	7.00	9	14.56	14.00	4.65	7.00

This table presents univariate comparisons of all deal, bidder and target variables included in the regression models for the period 1998-2004, where all takeover announcements with a same advisor took place. The table compares the mean and median characteristics of deals with and without having the same advisor. Significance of the difference in mean and median is based on a two-sample t-test and a non-parametric Mann-Whitney U test. The significance of the difference in the dummy variables is tested with a difference of proportion test (z-statistic). ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Table 8: OLS Regressions on *CAR of the Target (-20; +20)*

Model	I – OLS	II – OLS	III – OLS	IV – OLS	V – OLS	VI – OLS
Sample	M&A announcements in Japan					
Deal characteristics	yes	yes	yes	yes	yes	yes
Bidder characteristics	no	yes	no	yes	no	yes
Target characteristics	no	no	yes	yes	no	yes
Dependent variable: <i>CAR of the Target (-20; +20)</i>	Coeff. [t-stat.]	Coeff. [t-stat.]	Coeff. [t-stat.]	Coeff. [t-stat.]	Coeff. [t-stat.]	Coeff. [t-stat.]
Hypotheses						
Announcement after 2004	-0.0152 [-0.6104]	-0.0200 [-0.7500]	-0.0151 [-0.5546]	-0.0122 [-0.4357]	-0.0049 [-0.2100]	-0.0026 [-0.0975]
Same financial advisor	0.0156 [0.3619]	-0.0030 [-0.0760]	0.0194 [0.4087]	0.0203 [0.4266]	0.0435 [1.2218]	0.0547 [1.4613]
After 2004 * Same financial advisor	0.1087 [1.5004]	0.1179* [1.6499]	0.0992 [1.2686]	0.0913 [1.1912]		
Deal controls						
Deal value (ln)	0.0103 [1.6286]	-0.0003 [-0.0304]	0.0078 [1.0205]	-0.0028 [-0.2810]	0.0108* [1.7322]	-0.0022 [-0.2235]
Time to deal completion	-0.0002** [-2.0611]	-0.0002* [-1.8521]	-0.0001 [-0.8443]	-0.0001 [-0.8756]	-0.0002 [-1.9388]	-0.0001 [-0.7434]
Relative size	-0.0678*** [-3.2740]	-0.0226 [-0.7787]	-0.0782*** [-3.9413]	-0.0384 [-1.3248]	-0.0669*** [-3.1282]	-0.0368 [-1.228]
Cross-border Dummy	0.0312 [1.0729]	0.0355 [1.1890]	0.0504 [1.0814]	0.0504 [1.0965]	0.0281 [0.9734]	0.0468 [1.0228]
Cash-only deal Dummy	0.0632*** [2.6405]	0.0624** [2.5875]	0.0654*** [2.6366]	0.0615** [2.4477]	0.0647*** [2.7039]	0.0630** [2.5070]
Same industry Dummy	-0.0196 [-1.1069]	-0.0072 [-0.3939]	0.0058 [0.2938]	0.0147 [0.7240]	-0.0178 [-1.0103]	0.0153 [0.7546]
One party in <i>keiretsu</i>	0.0102 [0.1932]	0.0144 [0.2466]	0.0152 [0.2573]	0.0133 [0.2236]	0.0119 [0.2276]	0.0080 [0.1357]
Bidder controls						
Size Bidder (ln)		0.0125* [1.7207]		0.0118 [1.4202]		0.0121 [1.4451]
Cash holdings Bidder		0.0004 [0.4599]		0.0001 [0.1040]		0.0000 [0.0362]
M/B ratio Bidder		-0.0005 [-0.1102]		0.0003 [0.0525]		0.0002 [0.0358]
Return on assets Bidder		0.0023 [1.4467]		0.0026 [1.1692]		0.0028 [1.1885]
Leverage Bidder		-0.0001 [-0.7864]		0.0000 [0.0351]		0.0000 [0.0498]
Target controls						
Cash holdings Target			0.0015** [1.9757]	0.0013 [1.5639]		0.0013 [1.5694]
M/B ratio Target			-0.0027 [-0.8548]	-0.0028 [-0.8723]		-0.0028 [-0.8724]
Return on assets Target			0.0006 [0.3222]	-0.0001 [-0.0507]		0.0000 [0.0020]
Leverage Target			-0.0001*** [-2.9541]	-0.0001*** [-3.1508]		-0.0001*** [-3.1447]
Constant	0.0995** [2.5825]	0.0325 [0.5873]	0.0608 [1.2883]	0.0016 [0.0271]	0.0866** [2.321]	-0.0132 [-0.2229]
R ²	0.0944	0.1174	0.1354	0.1551	0.0902	0.1519
F-value	7.58	5.57	5.88	4.19	7.59	4.25
N	526	501	391	376	526	376

This table presents the results from several OLS regressions on the *cumulated abnormal returns (CAR) of the Target* as the dependent variable. Each model has a different setup with respect to the deal characteristics and the set of control variables (deal and bidder characteristics). Model V and VI are constructed without the interaction term. t-values based on heteroskedasticity-consistent standard errors are reported below coefficients. Some variables from the univariate statistics had to be left out because of data availability and the consequential sample size reduction. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Table 9: OLS and 2SLS Regressions on *time to deal completion*

Model	I – OLS	II – OLS	III – OLS	IV – OLS	V – 2SLS	VI – 2SLS
Sample	M&A announcements in Japan					
Deal characteristics	<i>yes</i>	<i>yes</i>	<i>yes</i>	<i>yes</i>	<i>yes</i>	<i>yes</i>
Bidder characteristics	<i>no</i>	<i>yes</i>	<i>no</i>	<i>yes</i>	<i>no</i>	<i>yes</i>
Target characteristics	<i>no</i>	<i>no</i>	<i>yes</i>	<i>yes</i>	<i>no</i>	<i>yes</i>
Dependent variable: <i>time to deal completion (days)</i>	Coeff. [t-stat.]	Coeff. [t-stat.]	Coeff. [t-stat.]	Coeff. [t-stat.]	Coeff. [t-stat.]	Coeff. [t-stat.]
Hypotheses						
Announcement after 2004	-21.6952 [-0.4247]	-15.5999* [-1.8222]	-7.2531 [-0.7702]	-60.6419*** [-2.9204]	-22.7123 [-0.5554]	-23.3603 [-0.9994]
Same financial advisor	4.1168 [0.3378]	1.7711 [0.1463]	-5.5648 [-0.4501]	-7.1830 [-0.5660]	80.1578* [1.6493]	42.7140 [1.0097]
Deal controls						
Deal value (ln)	14.3499*** [4.7231]	17.8623*** [5.9706]	14.0900*** [3.9793]	13.4332*** [3.5778]	13.8314*** [5.8317]	13.5033*** [3.9084]
Final premium (1 week)	0.1094 [-0.1048]	0.0998 [0.1224]	0.1019 [0.6682]	0.1175 [0.4190]	0.1005 [-0.6371]	0.1128 [0.0942]
Relative size	16.2632 [1.5623]	7.8557 [0.8480]	45.1772*** [3.8133]	35.3643*** [2.8059]	9.2376 [1.0872]	26.4229 [1.5867]
Cross-border Dummy	-0.4445 [-0.0368]	2.8920 [0.2347]	23.4866 [1.3699]	25.5491 [1.4405]	7.7000 [0.6161]	28.0748* [1.8661]
Cash-only deal Dummy	-101.3836*** [-13.2852]	-93.2021** [-12.2487]	-97.4616*** [-12.0742]	-94.2093*** [-11.3291]	-98.4969*** [-12.0495]	-93.3564*** [-11.1201]
Same industry Dummy	21.7188*** [3.2403]	14.9796** [2.1324]	14.3958* [1.7828]	10.9337 [1.2728]	21.2421*** [3.1535]	11.2328 [1.4499]
One party in <i>keiretsu</i>	15.9660 [2.1797]	7.0529 [0.9141]	7.2045 [0.8959]	13.9776 [1.5899]	14.4105 [1.8772]	12.5481 [1.4305]
Bidder controls						
Size Bidder (ln)		-5.0570** [-2.4236]		-3.5648 [-1.6461]		-3.4907 [-1.1886]
Cash holdings Bidder		-0.5504** [-2.0237]		-0.3296 [-0.9506]		-0.3567 [-0.9391]
M/B ratio Bidder		-3.0860** [-2.5438]		-1.4023 [-1.2011]		-1.2453 [-0.7573]
Return on assets Bidder		0.0053 [0.0118]		-0.1307 [-0.2232]		-0.2553 [-0.4049]
Leverage Bidder		-0.0360 [-1.6425]		-0.0537** [-2.5233]		-0.0578 [-1.9694]
Target controls						
Cash holdings Target			-0.4119** [-2.0669]	-0.3695* [-1.8265]		-0.4367 [-1.5993]
M/B ratio Target			-1.5609* [-1.8233]	-1.2467 [-1.3215]		-1.0139 [-0.7951]
Return on assets Target			0.0291 [0.0852]	-0.1573 [-0.4093]		-0.0838 [-0.1720]
Leverage Target			-0.0095 [-0.7660]	-0.0144 [-1.0504]		-0.0166 [-1.2673]
Constant	96.2688* [1.8746]	142.0529*** [7.4154]	104.7286*** [5.7465]	195.8033*** [8.2016]	97.1095** [2.4912]	160.3723*** [7.0259]
Endogeneity test					0.1029	0.6954
R ²	0.4754	0.4603	0.4972	0.5369	0.4292	0.5184
F-value	20.68	30.94	33.83	.	441.54	409.92
N	527	500	384	367	527	367

This table presents the results from several OLS and instrumental variables two-stage least squares (2SLS) regressions on the *time to deal completion* as the dependent variable. Each model has a different setup with respect to the deal characteristics and the set of control variables (deal and bidder characteristics). t-values based on heteroskedasticity-consistent standard errors are reported below coefficients. For the 2SLS regressions, the dummy variable *Both parties have multiple financial advisors* is used as the instrument. The second stage of the 2SLS uses the same covariates as in the OLS regressions but instruments *same financial advisor*. The variables success, hostile, and termination fee were omitted as there were no such observations in deals with the same advisor. Other variables from the univariate statistics had to be left out because of data availability and the consequential sample size reduction. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Table 10: OLS and 2SLS Regressions on the *size of the premium*

Model	I – OLS	II – OLS	III – OLS	IV – OLS	V – 2SLS	VI – 2SLS
Sample	M&A announcements in Japan					
Deal characteristics	yes	yes	yes	yes	yes	yes
Bidder characteristics	no	yes	no	yes	no	yes
Target characteristics	no	no	yes	yes	no	yes
Dependent variable: <i>size of the premium (1 week)</i>	Coeff. [t-stat.]	Coeff. [t-stat.]	Coeff. [t-stat.]	Coeff. [t-stat.]	Coeff. [t-stat.]	Coeff. [t-stat.]
Hypotheses						
Announcement after 2004	-32.2199** [-2.5246]	-35.6670** [-2.4591]	42.3259*** [3.4889]	40.3209*** [3.1402]	-32.4313* [-1.6914]	-20.1284 [-1.5817]
Same financial advisor	10.3812* [1.9355]	13.9412** [2.4782]	10.6861* [1.6849]	11.6678* [1.7712]	-17.4170 [-0.7512]	-50.4745** [-2.1233]
Deal controls						
Deal value (ln)	4.1915*** [3.0707]	2.7197* [1.7576]	3.7967*** [2.9028]	2.1400 [1.2447]	4.4383*** [3.8645]	2.2536 [1.1854]
Time to deal completion	0.0251 [-0.1043]	0.0265 [0.1351]	0.0255 [0.4492]	0.0277 [0.4276]	0.0214 [-0.0428]	0.0288 [0.1800]
Relative size	-3.6926 [-0.8572]	-1.1197 [-0.2942]	-10.6036* [-1.6881]	-4.2608 [-0.5484]	-1.2064 [-0.3025]	7.0155 [0.7670]
Cross-border Dummy	4.3301 [0.7335]	1.1260 [0.1824]	-3.6277 [-0.4627]	-5.0079 [-0.6043]	1.4166 [0.2415]	-8.2393 [-1.0094]
Cash only deal Dummy	10.5671** [2.1793]	9.1836* [1.8306]	10.4895** [2.2585]	9.6634** [2.0344]	9.8870** [2.2787]	8.3827 [1.5944]
Same industry Dummy	-1.6951 [-0.5298]	0.4874 [0.1444]	4.8834 [1.3020]	6.6621* [1.6697]	-1.5906 [-0.4975]	6.6909 [1.6027]
One party in <i>keiretsu</i>	-3.3748 [-1.0079]	-4.1564 [-1.0879]	-2.1717 [-0.5507]	-3.2413 [-0.7483]	-2.8955 [-0.8012]	-1.5033 [-0.3164]
Bidder controls						
Size Bidder (ln)		2.6691** [2.1674]		2.6563* [1.7777]		2.6671* [1.6869]
Cash holdings Bidder		0.1225 [0.8993]		0.1236 [0.6966]		0.1613 [0.7858]
M/B ratio Bidder		-0.3921 [-0.6060]		-0.2018 [-0.3127]		-0.4190 [-0.4710]
Return on assets Bidder		-0.2543 [-1.0843]		-0.2562 [-1.0506]		-0.1131 [-0.3328]
Leverage Bidder		-0.0096 [-0.8311]		-0.0118 [-0.9678]		-0.0075 [-0.4738]
Target controls						
Cash holdings Target			0.0374 [0.2937]	-0.0017 [-0.0123]		0.0799 [0.5403]
M/B ratio Target			-0.8842 [-1.2948]	-0.8854 [-1.3137]		-1.2300* [-1.7785]
Return on assets Target			0.3070 [1.4337]	0.4157* [1.6902]		0.3425 [1.3110]
Leverage Target			-0.0195*** [-2.8932]	-0.0197*** [-2.8452]		-0.0181*** [-2.6082]
Constant	16.8649 [1.4286]	8.2591 [0.5236]	-58.9406*** [-6.0774]	-69.6601*** [-5.8424]	16.7130 [0.9072]	-11.9895 [-0.9088]
Endogeneity test					0.2197	0.0366
R ²	0.2339	0.2445	0.2897	0.3053	0.1942	0.1246
F-value	5.93	.	.	.	149.94	129.81
N	527	500	384	367	527	367

This table presents the results from several OLS and instrumental variables two-stage least squares (2SLS) regressions on the *size of the premium* as the dependent variable. Each model has a different setup with respect to the deal characteristics and the set of control variables (deal and bidder characteristics). t-values based on heteroskedasticity-consistent standard errors are reported below coefficients. For the 2SLS regressions, the dummy variable *Both parties have multiple financial advisors* is used as the instrument. The second stage of the 2SLS uses the same covariates as in the OLS regressions but instruments *same financial advisor*. The variables success, hostile, and termination fee were omitted as there were no such observations in deals with the same advisor. Other variables from the univariate statistics had to be left out because of data availability and the consequential sample size reduction. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Table 11: Probit Regressions on *same financial advisor*

Model	I	II	III	IV	V	VI
Sample	M&A announcements in Japan					
Deal characteristics	<i>yes</i>	<i>yes</i>	<i>yes</i>	<i>yes</i>	<i>yes</i>	<i>yes</i>
Bidder characteristics	<i>no</i>	<i>yes</i>	<i>no</i>	<i>yes</i>	<i>no</i>	<i>yes</i>
Target characteristics	<i>no</i>	<i>no</i>	<i>yes</i>	<i>yes</i>	<i>no</i>	<i>yes</i>
1998-2004 only	<i>no</i>	<i>no</i>	<i>no</i>	<i>no</i>	<i>yes</i>	<i>yes</i>
Dependent variable: <i>Same financial advisor</i>	Coeff. [t-stat.]	Coeff. [t-stat.]	Coeff. [t-stat.]	Coeff. [t-stat.]	Coeff. [t-stat.]	Coeff. [t-stat.]
Hypotheses						
Announcement after 2004	-0.4753 [-0.8896]	-0.4489 [-0.8185]	-0.3277 [-0.5699]	-0.3362 [-0.5850]		
Deal controls						
Time to deal completion	-0.0003 [-0.2857]	-0.0009 [-0.8112]	-0.0008 [-0.5565]	-0.0007 [-0.4265]	-0.0021 [-1.5277]	-0.0046* [-1.8936]
Deal value (ln)	-0.0243 [-0.3389]	0.0488 [0.4820]	0.0030 [0.0299]	0.0100 [0.0753]	-0.0912 [-1.1099]	-0.3350** [-2.0572]
Final premium (1 week)	0.0025 [2.0091]	0.0028** [2.3024]	0.0036 [1.3557]	0.0037 [1.3800]	0.0044** [2.1801]	0.0065* [1.8683]
Relative size	1.0573*** [3.8404]	0.8719** [2.4981]	1.1010*** [3.1842]	0.9799** [2.1443]	1.1682*** [3.2597]	1.0253** [2.0848]
Cash only deal Dummy	-0.3347 [-1.1963]	-0.3247 [-1.0988]	-0.2142 [-0.6067]	-0.1866 [-0.5086]	-0.8537* [-1.7470]	-1.5901* [-1.9938]
Same industry Dummy	-0.0255 [-0.1316]	-0.1518 [-0.7441]	0.0579 [0.2391]	-0.0480 [-0.1919]	-0.1238 [-0.5100]	-0.3044 [-0.8171]
One party in <i>keiretsu</i>	0.2596 [1.1937]	0.2692 [1.0989]	0.2524 [0.9351]	0.3109 [1.0916]	0.1060 [0.4136]	0.4725 [1.2484]
Bidder controls						
Size Bidder (ln)		-0.0809 [-0.9721]		-0.0372 [-0.3519]		-0.2267 [-1.4931]
Cash holdings Bidder		0.0098 [1.1608]		0.0027 [0.2240]		0.0278* [1.6961]
M/B ratio Bidder		-0.0563 [-0.8621]		-0.0442 [-0.7137]		-0.0307 [-0.4481]
Return on assets Bidder		-0.0032 [-0.1253]		0.0250 [0.8970]		0.0297 [0.7589]
Leverage Bidder		0.0000 [0.0276]		0.0005 [0.8007]		0.0001 [0.2083]
Target controls						
Cash holdings Target			0.0108 [1.4202]	0.0102 [1.1665]		0.0150 [1.0571]
M/B ratio Target			-0.1093* [-1.6581]	-0.1665* [-1.649]		-0.1830** [-2.1767]
Return on assets Target			-0.0042 [-0.2507]	-0.0118 [-0.6581]		-0.0211 [-0.5704]
Leverage Target			0.0002 [0.6197]	0.0003 [0.7874]		-0.0001 [-0.2088]
Constant	-1.0484** [-2.4239]	-0.6775 [-1.1037]	-1.3739** [-2.1957]	-1.1770 [-1.4277]	-0.4330 [-0.8986]	1.8211 [1.4044]
Adj. R ²	0.2065	0.2153	0.1895	0.1810	0.1629	0.2501
Wald chi ²	53.91	54.17	46.65	42.88	25.93	28.75
N	276	261	207	198	152	95

This table presents the results from several probit regressions on having the *same financial advisor* as the dependent variable. Each model has a different setup with respect to the deal characteristics and the set of control variables (bidder and target characteristics). The sample is restricted to transaction announcements after the year 1997 as transactions with the same financial advisor do not occur before 1998. Cross border deals are excluded as transactions with the same financial advisor only occur within Japan. t-values based on heteroskedasticity-consistent standard errors are reported below coefficients. The variables success, hostile, cross-border, and termination fee were omitted as there were no such observations in deals with the same advisor. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Table A.1: Variable definitions

Variable name	Source	Variable description
Same financial advisor	Thomson Eikon, own calculation	Dummy variable that takes the value of 1 if bidder and target share the same financial advisor or investment bank in a single transaction.
<i>One party is keiretsu</i>	Previous Papers, own research	Dummy variable that takes the value of 1 if at least one involved party (bidder or target) is member in a <i>keiretsu</i> group.
Same <i>keiretsu</i> group	Previous Papers, own research	Dummy variable that takes the value of 1 if bidder and target are members of the same <i>keiretsu</i> group.
Deal value	Thomson Eikon	Natural logarithm of transaction value.
Success	Thomson Eikon	Dummy variable that takes the value of 1 if a takeover attempt is successful, zero otherwise. In the current sample only successful takeover attempts are analyzed.
Cash only	Thomson Eikon	Cash only is a dummy variable equal to 1 if only cash is used as method of payment in the transaction.
Stock only	Thomson Eikon	Stock only is a dummy variable equal to 1 if only shares are used as method of payment in the transaction.
Final premium	Thomson Eikon	Final premium is the ratio of final offer price per share to the target's stock price 4 weeks (1 week, 1 day, respectively) prior to the announcement minus 1.
Termination fee	Thomson Eikon	Termination fee is defined as the target termination fee divided by transaction value winsorized at the upper and lower 1 percent level.
Cross-border	Thomson Eikon	Dummy variable that takes the value of 1 if bidder and target are located in different countries, zero otherwise.
Same industry	Thomson Eikon	Same industry is a dummy variable equal to 1 if bidder and target share the same industry based on the 2-digit SIC code.
% held at announcement	Thomson Eikon	The bidder's ownership stake in the target before the public takeover announcement (Toehold).
Free float of shares	Thomson Eikon	Percentage of shares that are classified as free float and are traded at the stock exchange and are available to ordinary investors.
Years after IPO	Thomson Eikon, own calculation	Time span in years the transaction is announced after the bidder's going public.
Hostile	Thomson Eikon	Hostile is a dummy variable that takes the value of 1 if the takeover bid is hostile or unsolicited as recorded in Thomson Eikon. In the current sample only non-hostile takeover attempts are analyzed.
Size bidder	Datastream / Worldscope	Size is the natural logarithm of market capitalization of the bidder.
M/B ratio	Datastream / Worldscope	M/B ratio is defined as the market value of common equity divided by the balance sheet value of common equity in the company.
Return on assets	Datastream / Worldscope	Profitability is net income scaled by total assets and is the firm's profitability.
Cash holdings	Datastream / Worldscope	Cash holdings is the ratio of cash and equivalents to total assets.
Total debt	Datastream / Worldscope	Total debt is defined as short term debt & long term debt divided by the value of total assets (Enterprise value).
Leverage ratio	Datastream / Worldscope	Leverage ratio is calculated as total debt divided by total equity of the company.
Relative size	Datastream / Worldscope, Thomson Eikon	Relative size is defined as transaction value divided by bidder market value prior to the announcement.
Both parties have multiple financial advisors	Thomson Eikon, own calculation	Dummy variable that takes the value of 1 if bidder and target both have multiple financial advisors.

This table includes all variable definitions, data sources and variable constructions we use in the paper. We use stock return and accounting data from Datastream and Worldscope, respectively. All accounting variables and returns are winsorized at the upper and lower 1 percent level.