Shareholder Activism with Weak Corporate Governance: Social Pressure, Private Cost and Organized Crime

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ABSTRACT

Prior research provides mixed results on the ability of American shareholder activists to improve managerial behavior. In Japan, the means of external control (e.g., takeover, litigation) are not as effective as they are in the U.S. Challenging management during annual meetings may be the only option left for disgruntled shareholders. Yet, the situation is complicated by the existence of corporate racketeers who disrupt meetings to blackmail managers. In response, authorities have encouraged companies to hold their annual meetings on the same day to spread the racketeers' thin over simultaneous events. However, this policy has a similar effect on legitimate activists. Our empirical results indicate that, contrary to governmental expectations, shareholder activism leads to improvement in a company's corporate governance, informational environment and profitability. It also enables firms to attract foreign shareholders. In addition, firms that collude to have their meetings on the same day have lower profitability and worse governance. This provides evidence of the positive role activists may play and suggests the authorities should reverse their policy of discouraging shareholder activism.

Keywords: shareholder activism, annual meeting, organized crime

1. Introduction

Without external pressure, managers may behave in ways that are sub-optimal for the shareholders. Legal recourse and corporate governance are often seen as ways to mitigate this behavior (e.g., Gompers et al. [2003]). But what can shareholders do when the means of creating external pressure to control such behavior are not widely available? One possibility is shareholder activism but this has had mixed success in the U.S. (e.g., Wahal [1996], Karpoff et al. [1996]). One hypothesis is activism is not effective when there are other means of disciplining managers. In Japan, these other means are generally not available. For example, shareholder litigation is rare (West [1999]), the market for takeovers is not active (Shleifer and Vishny [1997]), and managers' compensation is typically not based on the stock price (Kaplan [1994]). In this context, challenging the management during annual meetings may be one of the few choices left to disenfranchised investors, apart from selling their stocks.

Prior anecdotal evidence suggests maintaining control during an annual meeting is important for managers. For example, the length of large firms' meetings is usually the top story on the Japanese evening news and banks have to report promptly the length of their meetings to the Ministry of Finance (West [1999]). In addition, the length of the meeting is systematically reported in trade journals. More than 40% of the meetings in our sample lasted between 25 and 35 minutes. This suggests departure from the target of

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a 30-minute meeting is costly for managers and, thus, any deviation in the meeting length should only occur under outside pressure. The effect of social embarrassment appears to be particularly strong in Japan but is not unique to this country. For instance, the American shareholder activist Robert Monks successfully resorted to public shaming of the directors of Sears after his proxy fight failed.[1]

We explore empirically several consequences of activism. Our results indicate profitability, measured by returns on assets (ROA) and stock price performance, improves after sudden long meetings ("spikes"), partly because of the disposal of non-performing assets. This result stands in contrast to the results found in the U.S. For example, Karpoff et al. (1996) find no improvement in operating returns for American firms while Song and Szewczyk (2003) find no improvement in expected future earnings. Transparency also improves for targeted firms. Subsequent meetings become more active, with more shareholders attending and more questions being asked. The amount of firm specific information available to investors (measured by the synchronicity of the firm with the rest of the stock market) increases. Finally, the percentage of shares held by foreign investors increases, while the percentage held by financial institutions decreases. These results hold after endogenizing the occurrence of a long meeting with a two-step estimation process (Maddala [1983]) and controlling for numerous factors such as change in growth opportunities. In other words, these results are not the simple turnaround of distressed companies. Overall, they suggest activists are able to use the embarrassment caused by long meetings to improve governance.

Confronted with the threat of activism, managers have resorted to several techniques to control the length of their meetings and avoid embarrassment.[2] This gave organized crime a unique opportunity to prosper. *Sôkaiya* are corporate extortionists who operate during shareholders' meetings. For a fee, they guarantee management the annual meeting will proceed smoothly by intimidating "legitimate" shareholders.[3] At the same time, they threaten to disrupt the meeting if their offer is declined. In 1997, a survey of 1,200 Japanese firms revealed that 67% admitted to having paid *sôkaiya*, even though such payments became a criminal offense in 1982.[4] Although there is much written about the *sôkaiya* in the popular press, little systematic work beyond the reporting of anecdotal evidence has been done.

In response to the perceived threat of organized crime, authorities have encouraged, companies to hold their annual meetings on the same day of the year to spread the *sôkaiya* manpower thin over numerous simultaneous events. Yet, this policy has a similar effect on legitimate activists. Thus, management may be able to implement practices that limit outside pressure and use the *sôkaiya* to justify them, even if the firm is not under their immediate threat. We find firms that choose meetings on the national meeting day are less likely to be targeted by activists. They also under-perform in terms of profitability or governance. They have fewer foreign investors. However, after being successfully pressured by activists, they tend to choose another date for subsequent meetings. In conjunction with our results on the positive consequences of activism, this

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[1] Skeel (2001), Dyck and Zingales (2003) or Wu (2003) provide some systematic analysis on this issue.

[2] One example of such techniques is to stack the front row seats with employees.

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

[4] "Fushoji de Nigeru na," 894 Nikkei Business, pp. 38-45 (1997).

suggests *sôkaiya* are generally not a problem for the governance of Japanese firms but managers strategically use the perception of this threat to justify poor governance practices.

In addition, these findings enable us to reject an alternative explanation for our first set of results. Under this alternative scenario, meeting length would not be driven by shareholder activism but rather by the meeting agenda set up by managers. For example, managers, confronted with an adverse economic situation, would voluntarily decide to restructure the firm and announce their plans at the meeting, which would lead to longer gatherings. However, if this was true, the meeting date should not prevent managers from spending the necessary time to present their plan. More generally, if managers could easily control the meeting length or were indifferent to it, they should not try to strategically time it. For example, they should not try to take advantage of the national clustering when firm's performance is bad. Second, there should be no relation between the date of the meeting and subsequent firm's performance, even *after controlling* for the fact that performance and transparency may affect the choice of the date. Similarly, we should not find a negative relation between being subjected to a long meeting in one year and choosing not to have the subsequent ones on the national day, even *after controlling for the improvement* in the firm's economic situation or transparency. In other words, the date of the meeting should not have any economic effect. This is not consistent with our empirical findings. On the other hand, if our first results are driven by shareholder activism, techniques designed to prevent it (such as clustering meetings on a national day) should have an impact. This is what we find. Third, we directly investigate the meeting agenda for a sub-sample of firms that experienced a long meeting. We do not find management put more items on the agenda than in the year prior to the long meeting. In addition, the management put fewer items than in a control group of firms of comparable size and profitability that did not experience a long meeting in the same year. These three points and the use of two-step techniques to estimate the effect of long meetings lead us to conclude our results are not primarily driven by endogeneity.

We believe this study makes several contributions. First, it contributes to our understanding of shareholder activism. We find strong evidence of the positive effects of activism, not only on governance and shareholder clientele but also on operations and accounting performance. This is in contrast to the results in the U.S. where the evidence is mixed at best. For example, Song and Szewczyck (2003) note American "shareholder activism has little effect on the target firm's share values, earnings and operations." Our result may be explained by the fact Japan offers a more powerful setting to study the effect of shareholder activism because other mechanisms available are much weaker. We also use a unique dataset that contains information about the length and the activity of annual meetings for a very large cross-section of the economy over ten years. This helps us to draw more general conclusions. It also sheds light on the role of annual meetings, a topic that has received little attention in the literature. Second, we further the understanding of the role of organized crime in the legitimate economy. Although the issue of corporate racketeering is particularly salient in Japan, it exists in other countries. Italian *sôkaiya* are referred to as *disturbatori* while their South Korean counterparts are called *chongheoggun* (West [1999]). Finally, we believe that our empirical results are directly relevant to policy makers. As previously mentioned, Japanese authorities have supported policies restricting activism on the grounds that this

would otherwise hurt the economy. Our analysis suggests the policy is detrimental to market efficiency and corporate governance. Although the specifics may be unique to Japan, comparable claims have been made elsewhere by managers trying to obtain legal protection from the authorities against external shareholders. For example, American managers have claimed that direct election of directors during annual meeting may cause harm to the firms.[5] Japanese managers were perhaps uniquely successful in obtaining this political protection by using the threat of organized crime as a justification. We believe that our results speak to this general issue.

The remainder of this paper is organized as follows. In Section I, we provide background information on shareholder activism. In Section II, we develop our hypotheses. Section III describe the sample and presents descriptive statistics. Section IV reports the empirical tests and results. We conclude in Section V.

2. Background of Shareholder Activism

2.1 "Legitimate" Activism

Whether outside shareholders can influence corporate governance or profitability through public activism has been mainly studied with U.S. data. Evidence of positive influence is mixed at best. Wahal (1996) considers the effect of public shareholder activism by pension funds on American companies. He reports that there are no significant abnormal returns at the time of the targeting for the vast majority of firms. Prior results also suggest that there is no evidence of significant long-term improvement in either stock price or accounting performance. Karpoff et al. (1996) find comparable results for shareholder-initiated proxy proposals. Smith (1996) also finds no improvement in operating performance of firms targeted by CalPERS although there is an increase in stock prices of firms that agreed to cooperate with the fund. Strickland et al. (1996) analyze the effect of the United Shareholder Association, an association of largely small shareholders, which negotiated 53 agreements with mainly large and poor performing American firms to improve their corporate governance. The announcement of the agreement led to an average abnormal return of 0.9%.[6] Prevost and Rao (2000) report that firms targeted once by pension funds experience no long-term abnormal returns but firms subjected to repeated attacks experience negative returns.

In contrast to the number of studies on shareholder activism in U.S. firms, the amount of research on shareholder activism in Japanese firms is limited. An example of activism is provided by Yoshiaki Murakami, a leading shareholder activist, who mounted an attack on the *Tokyo Style* management in 2002, asking the company to increase dividends, to buy back stocks and to appoint outside directors. Although all his resolutions were rejected by a large margin during a marathon eight- hour shareholders'

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[5] For example, the Business Round Table states on its web sit: "The proposed [Election Contest] rules would have widespread and harmful unintended consequences, enabling a small number of shareholders and advisory services to impose significant costs on all shareholders, often for reasons wholly unrelated to sound corporate governance or the welfare of the corporation. Indeed, the diversion of corporate attention and resources away from the day-to -day business of the corporation that would result from the proposed rules could have adverse implications for the economy as a whole."

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

annual meeting, the company subsequently decided to comply voluntarily with his demands.[7]

2.2 Sôkaiya

Sôkaiya are corporate extortionists who are typically connected to local organized crime groups (*yakuza*). They guarantee management the company's annual meeting will proceed smoothly and undesirable questions will be controlled. At the same time, they threaten to disrupt the meeting if their offer is declined.[8]

Anecdotal evidence suggests *sôkaiya* may play an important role in the economy. For example, in 1997, *Dai-Ichi Kangyo Bank*, the fifth largest corporation in the world at the time, allegedly offered one *sôkaiya* a bribe of $96 million in the form of a "loan". The proceeds were used to blackmail the biggest Japanese brokerage houses. Other world-famous corporations such as *Hitachi, Toshiba, Mitsubishi, Toyota, Nissan* and many others have either admitted to or have been rumored to paying- off the extortionists. An executive at *Ajinomoto*, a processed food company, is said to have to have had a budget of as much as Y100 million a year to negotiate with the *sôkaiya* (Ogino [1997]). The meetings at *Matsuzakaya*, a large Japanese retailer, lasted four hours in 1994 and three in 1995, extraordinary lengths by Japanese standards. The management started paying the *sôkaiya* in 1996. The meeting then lasted nineteen minutes in 1996 and thirty-eight in 1997.[9] Despite of this seemingly strong influence of the *sôkaiya*, this phenomenon has lacked systematic investigation. For example, Maruko (2002) notes that "it is somewhat surprising that more has not been written about this form of organized crime."

The perceived threat from the *sôkaiya* is sufficiently credible that Japanese authorities encourage firms to hold their meetings on the same date. They even help firms to coordinate and choose a common date. The clear drawback of this strategy, however, is that it has a similar chilling effect on legitimate activists who cannot effectively participate in meetings that are held simultaneously. In this context, the fact that 67% of the firms admit paying *sôkaiya* might be explained by a managerial interest in keeping the threat credible.

3. Hypotheses Development

We use the existence of an abnormally long meeting (a "spike") as a sign of activism, whether it is caused by *sôkaiya* or by legitimate activists. It is likely that in certain instances *sôkaiya* or legitimate activists approach management prior to the meeting and obtain what they want just by threatening to disrupt the meeting. Our tests therefore are likely to understate the real magnitude of the effect of contentious meetings. However,

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

[8] Their actions typically involve non-violent methods. Ryall (2003) describes their approach in the following way: "If a company's management refuses their demands for a payoff, they disrupt the meeting, shouting abuse at board members and accusing them - with or without grounds - of sexual misconduct or gross mismanagement. In a nation famed for its love of harmony, their tactics proved remarkably successful for half a century."

[9] Matsuzakaya Torishimariyaku to Sokaiya wo Taiho," *Mainichi Shinbun*, October 20, 1997.

we have no reason to believe either group is better than the other at extracting concessions based on the threat of disruption. Therefore, we do not expect the direction of the effect to be systematically biased in favor of either group.

We empirically investigate several possible consequences of "spikes". First, we consider the effect on subsequent meetings. If "spikes" are the precursor of an improvement in corporate governance, subsequent meetings should be less perfunctory. Attendance should be higher and more questions should be asked. On the other hand, if lengthy meetings signal the arrival of organized crime, the opposite should be expected. Second, we consider the effect on the informational environment by studying synchronicity of the firm's stock with the rest of the exchange. Durnev et al. (2001) report firm-specific stock price variability is positively correlated with measures of stock price informativeness. The more firm-specific information is incorporated into the price, the less the stock covaries with the rest of the exchange.[10] If lengthy meetings announce an increase in disclosure, the firm's synchronicity (i.e., the R^2 of a regression explaining the firm's returns by the variation in the overall market and the industry index) should subsequently decrease. Opposite results would be expected in cases of *sôkaiya* activism. Third, we consider the effect on profitability. If long meetings are due to disgruntled shareholders, management may initiate restructuring to improve the firm's operations, in which case the ROA and the likelihood of making a profit should improve. Finally, we consider the impact of "spikes" on shareholder composition. If firms become more transparent and shareholder- friendly, they should attract a larger proportion of foreign shareholders who could not initially access information on the firm in a timely manner and may feel at a disadvantage competing with large Japanese shareholders such as financial institutions. Conversely, if organized crime's influence increases, there should be a reduction in the number of foreign shareholders.

4. Sample and Descriptive Statistics

4.1 Sample

We hand-collected all information about the annual meetings (length, date, number of shareholders present, number of questions asked) from the *Shiryoban Shoji Homu*. This publication reports information on virtually every large and mid-size Japanese firm. We obtained data on price, earnings and other accounting information from the PACAP database. We followed the convention of eliminating firms from the financial, insurance and real estate sectors (PACAP item INDID equal to 501, 511, 512, 513 or 601) since these firms face a different corporate governance environment.[11] The sample period covers 10 years from 1991 to 2000.

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

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

Table 1 - Summary Statistics.

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

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

4.2 Descriptive Statistics

Descriptive statistics are reported in Table 1. Annual meetings in Japan are not typically lengthy. They last less than thirty minutes on average and no question is asked in the wide majority of the cases. It is even a bit surprising that an average of 85 shareholders (or slightly more than 1% of the shareholders) bother attending. By comparison, *General Motors* received a lot of negative press coverage in 1995 for having its shortest and smallest meeting in decades. It lasted two and a half hours, was attended by 137 shareholders (versus more than 1,600 people in 1992, a more typical year) and cost $150,000 (versus $1.2 million in 1994).[12]

4.3 Three Day Return

We define a "spike" as an annual meeting that lasts 50% more than the average time for a given firm. Given the institutional and cultural background described in the introduction, we use "spikes" as a measure of the private costs imposed on the manager by an unruly meeting. To avoid cases where there is a large proportional but small absolute increase (e.g., a meeting lasting 16 minutes for a firm with an average of 10 minutes), we also require that the gathering lasts more than thirty minutes (the average meeting length in Japan reported in Table 1).

We first consider the three-day (the day of the meeting, the previous trading day and the subsequent one) cumulative market-adjusted return after a lengthy meeting but we do not find any significant abnormal market reactions. This suggests management does not choose to have a long meeting to announce important news such as plans to restructure the company or changes in the investment opportunity set. On the other hand, the absence of price reaction should be expected if the "spike" is due to shareholder activists who have already anticipated the benefit of their action before a long meeting and do not want to "leave any money on the table".[13]

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

[13] This argument does not imply that the shareholders will correctly anticipate every outcome of the meetings but rather that they have rational expectations about the likelihood of success.

Table 2 - Description of the Items on the Agenda.

	"Pre-Spike" Year	"Spike" Year	Control Sample
Director Election	65%	85%	95%
Auditor Nomination	95%***	55%	35%
Retirement Allowance	100%**	80%	90%
Amendment of the by-laws	40%	20%	45%**
Treasury Stocks	15%	10%	20%
Other Items	5%	10%	10%
Total	3.2***	2.4	2.95**

We investigate a random sample of firms experiencing a "spike." For these firms, we report the number of items put on the agenda by the management. We report this total number in Row VII, Column II. We compare it to the number put on the agenda the year prior to the "spike" (Column I) and to a sample of 20 firms randomly matched on year, size and profitability that did not experience a "spike" (Column III). We also report the percentage of firms that put various items (director election, auditor nomination, retirement allowance, amendment of the by-laws, stock buy-back) on their agenda. Significant differences between the control groups and the firms experiencing a "spike" at the 10%, 5% and 1% level are noted with *, ** and ***, respectively.

4.4 Items on the Agenda

To further study whether the long meeting is voluntarily caused by management, we examine a random sample of 20 firms experiencing a "spike". We investigate the items put on the agenda by management. We then compare these items to the ones put the year prior to "spike" and to a sample of twenty firms matched on size, year and profitability. Results in Table 2 indicate the number of items during the spike is not greater than the year before and is significantly lower than the number put forward in control firms that did not experience a "spike". Results are similar when we disaggregate the number by type of items.

4.5 Long Term Return

We then examine the long-term returns one year prior to the "spike" and one year after. To do so, we form an equally weighted portfolio of firms that had a long meeting and we calculate the difference between their returns and the market return in each month. In the 12 months prior to the "spike", the portfolio had significant average negative returns of -7.18% compared with the market (t-statistic = -5.64).[14] However, in the following year, average monthly returns become indistinguishable from the market, except among firms subjected to multiple long meetings. In this case, the return is marginally negative (p-value=0.08). This result is consistent with U.S. findings (e.g., Song and Szewczyk, [2003]).[15]

5.6 Occurrence of a Long Meeting.

Table 3 reports the likelihood of a long meeting occurring. We find approximately 3% of all meetings in the sample were long. From a theoretical point of view, it is unclear whether "spikes" should be anything but random. If long meetings impose costs on

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

[15] Song and Szewczyck (2003) report that firms labeled as underperforming by the Council of Institutional Investors have returns indistinguishable from the benchmark after being targeted by the Council.

Table 3 - Likelihood of Having a "Spike."

	SPIKE$_{i,t}$	SPIKE$_{i,t}$
INTERCEPT	-3.14	-3.15
	(-5.47)	(-9.12)
LOGASSET$_{i,t}$	0.09	0.09
	(2.39)	(3.44)
ROA$_{i,t}$	-1.59	-1.58
	(-5.17)	(-3.81)
LOSS$_{i,t}$	0.08	0.18
	(1.27)	(3.15)
FIRMRET$_{i,t-1}$	-0.29	
	(-1.46)	
FOREIGN$_{i,t}$	0.39	
	(1.30)	
FIN$_{i,t}$	-0.09	
	(-0.23)	
DAY$_{i,t}$	-0.38	
	(-1.89)	
SECTION$_{i,t}$	-0.06	
	(-0.79)	
Pseudo-R^2	6.37	1.68
N	9,420	9,420

Table 2 provides the results from Probit regressions with robust standard errors allowing for clustering of observations by year. Z-statistics are reported in brackets. *SPIKE$_{i,t}$* is a dummy variable that takes the value of one if there is a "spike" for firm i at year t, zero otherwise). *LOGASSETS$_{i,t}$* is the log of assets (PACAP item BAL9). *ROA$_{i,t}$* is the ratio of PACAP item INC9 over PACAP item BAL9. *LOSS$_{i,t}$* is a dummy variable that takes the value 1 if the net income (PACAP item INC9) is negative, 0 otherwise. *FIRMRET$_{i,t-1}$* is the firm yearly return (PACAP item DRETWD) including the month when the annual meeting occurs and the 11 preceding months. *FOREIGN$_{i,t}$* is the number of shares owned by foreigners (item JAF79) scaled by the total number of shares (JAF81). *DAY$_{i,t}$* is a dummy variable that takes the value of one if the annual meeting is held on the mode date for the date, 0 otherwise. *SECTION$_{i,t}$* is dummy variable that takes the value of one if the firm is traded on the first section of the Tokyo Stock Exchange, zero otherwise. Year dummies are not tabulated in column 1.

both the management and the activists (legitimate or otherwise), "spikes" should not happen if the only purpose is to extract concessions from the management and if all parties are fully informed. In this case, the management should optimize the pay-off so that it is not profitable for the activists to incur the cost of an attack. The situation would be similar to the one described by Hicks (1963) in the case of strikes. They happen only in cases of miscalculation by either party and hence they occur randomly. However, we further investigate this question by using two Probit regressions. The dependent variable is *SPIKEi,t* (a dummy variable that takes the value of one if there is a "spike" for firm i in year t; otherwise, the value is zero). The independent variables are *LOGASSETSi,t* (the log of assets, PACAP item BAL9), *SECTIONi,t* (a dummy variable that takes the value of one if the firm is traded on the first section of the Tokyo Stock Exchange; otherwise, the value is zero), *ROAi,t* (the return on assets calculated as the ratio of PACAP item INC9 over PACAP item BAL9), *LOSSi,t* (a dummy variable that takes the value 1 if the net income [PACAP item INC9] is negative; otherwise, the value is zero) and *FIRMRETi,t-1* (the firm's yearly return [PACAP item DRETWD] including the month when the annual meeting occurs and the 11 months preceding).[16] We also

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[16] Note that the accounting variables are based on the fiscal year preceding the annual meeting.

include $DAYi,t$ (a variable that takes the value of one if the annual meeting is held the national meeting day,[17] otherwise, the value is zero), year dummies, $FOREIGNi,t$ (item JAF79, shares owned by foreigners scaled by the total number of shares, JAF81), $FINi,t$ (item JAF76-77, shares owned by banks and financial institutions scaled by the total shares).[18] In a second specification, we control only for $LOGASSETSi,t$, $ROAi,t$ and $LOSSi,t$.

Results are reported in Table 3, column 1 for the full model and in column 2 for the second specification. They indicate that the likelihood of long meetings is greater in larger firms that are suffering from a loss or a low ROA.[19] This is broadly consistent with the results on firms targeted by American shareholder activists (e.g., Karpoff et al. [1996], Wahal [1996]). The policy of clustering meetings on one day also appears to achieve the goal of reducing the likelihood of a "spike" (z-statistic = -1.89). This result is consistent with "spikes" happening under shareholder pressure. If the long meetings were initiated by management or were simply a by-product of changes in the firm, we would not expect the clustering of the meetings by date to reduce the likelihood of their occurrence.

5. Empirical Tests and Results

In this section, we first report the effects of long meetings and then the effects of meeting clustering.

5.1 The Effect of Long Meetings.
5.1.1 The Effect on Subsequent Meeting Characteristics.
We consider the effect of a "spike" on subsequent meetings. To do so, we use three main specifications. The first one is an ordinary least squares regression with a firm fixed effect (subsequently referred to as OLS FE) using firms that had long meetings.[20] This specification assumes that the occurrence of a "spike" is random and that the effects are permanent. We use the meeting characteristics (collectively referred to as $CHARi,t$ in equation (1) below) as the dependent variable. Specifically, we use: (1) $ATTENDi,t$, the number of shareholders attending the annual meeting, (2) $PERCi,t$, the percentage of shareholders attending the annual meeting; (3) $SENTQi,t$, the number of questions sent by mail to the firm before the annual meeting; (4) $MEETQi,t$, the number of questions asked at the meeting; (5) $LENGTHi,t$, the length of the annual meeting in minutes; and finally (6) $DAYi,t$, a dummy that takes the value of one if the meeting is held on the mode date. For the firms with a "spike", we then regress the characteristics on $SPIKEi,t$ and $AFTERi,t$ (a dummy variable that takes the value of one in the years subsequent to a "spike"; otherwise, the value is zero). $AFTERi,t$ is the main variable of interest in this first specification. We control for the size of the firm by including

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[17] We define the national meeting day as the mode date for meetings.

[18] We also consider all the change variables subsequently used in the paper. These variables (not tabulated) are not significant, with the exception is the absolute value of the change in assets. Our results are not affected when we include this variable in our analysis.

[19] Results are comparable, but less significant, when we lag the control variables by one year.

[20] Results (untabulated) are more significant when a Seemingly Unrelated Related (SUR) procedure is used instead of OLS.

LOGCAPi,t (the log of the market capitalization, PACAP item MKTVAL, at the end of the month when the annual meeting occurs). To control for the performance of the firm, we include three previously defined variables: *ROAi,t*, *LOSSi,t* and *FIRMRETi,t-1*. All variables are demeaned to provide a firm fixed effect. To avoid the overlapping and confounding effects of repeated long meetings, firms with multiple "spikes" are deleted when the OLS FE is run.

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

We use a second specification that controls for the possible endogeneity of the occurrence of long meetings. Following Maddala (1983), we estimate the effect of "spikes" with a two-step process. First, we estimate the likelihood of a "spike" through a Probit regression using *LOGASSETSi,t*, *ROAi,t*, and *LOSSi,t* as exogenous variables (this is similar to the parsimonious model described in III.2).[21] In a second step, we use an OLS regression including *SPIKEi,t* (the main variable of interest in the second and third specifications), *TIMEt* (a time trend), *Iji,t* (industry dummies, not tabulated) and *LAMBDAi,t* (the inverse of the Mills ratio obtained from the first step). The dependent variable in the second step is the change in a meetings' characteristic from the year preceding the meeting (t-1) to the year following the meeting (t+1). We also consider the change from t+1 to t+2 and from t+2 to t+3 but the results are not tabulated. To be consistent with the OLS FE specification, firms with multiple long meetings are deleted in the tabulated results but we perform a sensitivity test on this truncation and discuss the qualitatively similar results obtained from the full sample.

$$\Delta CHAR_{i,t+1} = \beta_0 + \beta_1 \, SPIKE_{i,t} + \beta_2 \, TIME_t + \beta^j_3 \, I_{j,i,t} + \beta_4 \, LAMBDA_{i,t} + e_{i,t}. \qquad (2)$$

As an alternative third specification, we use variables in the second step that are identical to the ones in the OLS FE but, instead of demeaning them, we take the difference between t-1 and t+1.[22] To ensure that the results are not driven by corporate events simply correlated with long meetings but not related to shareholder activism, we also include *ΔSHRi,t+1* (the absolute value of change in the total number of shares divided by the number of shares at t-1) and *ΔASSETi,t+1* (the absolute value of the change in total assets divided by total assets at t-1).[23] *ΔSHRi,t+1* proxies for the changes in equity due to events that may trigger a longer meeting such as share issuances or buy-backs. *ΔASSETi,t+1* proxies for a change in investment due to similar events such as major acquisitions or significant divestures.[24]

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[21] Results are qualitatively similar when *DAY* is included in the first stage.

[22] Note that this last specification is for descriptive purposes since we subsequently treat *ΔROAi,t+1* and *ΔLOSSi,t+1* as endogenous variables with respect to the "spike."

[23] Taking the signed value does not affect our results.

[24] In addition, we hand-collected the date of the last change of CEO from *Yakuin Shikihou* (*Management Quarterly Journal*) for firms experiencing a "spike." We include a dummy variable that takes the value of one if the firm experienced a "spike" and a CEO change in the same year, zero otherwise. Results (not tabulated) are qualitatively similar to the ones reported and the significance of *SPIKEi,t* is generally not affected. This suggests that managerial turnover is not driving our results.

Table 4 - Effect of a "Spike" on Future Annual Meetings.
Panel A: Differences with Industry Fixed Effects and Time Trend.

	ΔATTEND$_{i,t+1}$	ΔPERC$_{i,t+1}$	ΔMEETQ$_{i,t+1}$	ΔLENGTH$_{i,t+1}$	ΔDAY$_{i,t+1}$
INTER.	-4.04	-0.31	0.53	2.94	0.05
	(-0.33)	(-1.75)	(1.53)	(0.66)	(0.86)
SPIKE$_{i,t}$	113.28	1.00	2.26	7.80	-0.26
	(4.09)	(2.40)	(2.94)	(0.69)	(-1.88)
TIME$_t$	-0.10	-0.01	0.03	0.60	-0.01
	(-0.64)	(-2.63)	(7.85)	(10.43)	(-11.35)
LAMBDA$_{i,t}$	-40.76	-0.37	-0.92	-3.67	0.10
	(-3.67)	(-2.18)	(-2.98)	(-0.80)	(1.83)
N	9,416	9,415	9,420	9,420	9,420

Panel B: Differences with Firm Level Controls.

	ΔATTEND$_{i,t+1}$	ΔPERC$_{i,t+1}$	ΔMEETQ$_{i,t+1}$	ΔLENGTH$_{i,t+1}$	ΔDAY$_{i,t+1}$
INTER.	-0.53	-0.04	0.05	1.31	0.00
	(-0.78)	(-3.83)	(2.76)	(5.16)	(0.10)
SPIKE$_{i,t}$	115.79	1.14	2.63	25.64	-0.32
	(4.32)	(2.81)	(3.45)	(2.40)	(-2.30)
ΔLOGCAP$_{i,t+1}$	3.18	0.12	-0.01	1.09	0.01
	(3.37)	(8.94)	(-0.45)	(3.10)	(1.37)
ΔROA$_{i,t+1}$	-13.51	-0.13	-0.04	2.32	-0.11
	(-1.95)	(-1.30)	(-0.20)	(0.89)	(-3.22)
ΔLOSS$_{i,t+1}$	1.28	0.01	0.05	1.81	-0.01
	(1.41)	(1.02)	(1.83)	(5.36)	(-2.54)
ΔFIMRET$_{i,t}$	-2.11	-0.06	-0.02	-1.81	-0.01
	(-3.09)	(-6.60)	(-1.04)	(-7.12)	(-3.13)
ΔSHR$_{i,t+1}$	0.64	-0.09	0.01	-0.02	-0.00
	(2.01)	(-19.50)	(0.60)	(-0.17)	(-2.80)
ΔASSET$_{i,t+1}$	3.08	-0.10	0.06	-2.55	0.01
	(0.88)	(-2.10)	(0.58)	(-1.99)	(0.44)
LAMBDA$_{i,t}$	-41.62	-0.41	-1.06	-10.58	0.12
	(-3.86)	(-2.58)	(-3.45)	(-2.46)	(2.19)
N	9,416	9,415	9,420	9,420	9,420

Z-statistics (panels A and B) are reported in brackets. Standard errors are corrected according to Maddala (1983). Results for the industry dummies are omitted from panel A. Coefficients for $\Delta PERC$ are multiplied by 100 for expositional clarity. $ATTEND_{i,t}$ is the number of shareholders attending the annual meeting of firm i at time t. $PERC_{i,t}$ is the percentage of shareholders attending the annual meeting. $SENTQ_{i,t}$ is the number of questions sent by mail to the firm before the annual meeting. $MEETQ_{i,t}$ is the number of questions asked at the meeting. $LENGTH_{i,t}$ is the length of the annual meeting in minutes. $DAY_{i,t}$ is a variable that takes the value of one if the annual meeting is held on the mode date for the date, 0 otherwise. $SPIKE_{i,t}$ is a dummy variable that takes the value of one if there is a "spike" for firm i at year t, zero otherwise). $LOGCAP_{i,t}$ is the log of the market capitalization (PACAP item MKTVAL) at the end of the month when the annual meeting occurs. $ROA_{i,t}$ is the ratio of PACAP item INC9 to PACAP item BAL9. $LOSS_{i,t}$ is a dummy variable that takes the value 1 if the net income (PACAP item INC9) is negative, 0 otherwise. $FIRMRET_{i,t}$ is the firm yearly return (PACAP item DRETWD) including the month when the annual meeting occurs and the 11 preceding months. $TIME_t$ is a time trend. $\Delta SHR_{i,t+1}$ is the absolute value of change in the total number of shares divided by the number of shares at t-1. $\Delta ASSET_{i,t+1}$ is the absolute value of the change in total assets divided by total assets at t-1. $LAMBDA_{i,t}$ is the inverse of the Mills ratio obtained from the first step regression.

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

We report the results in Table 4. To conserve space, we do not tabulate the results from the first specification but all specifications indicate meetings following a "spike" become more active: more questions are asked at the meetings, more shareholders

Table 5 - Analysis of Synchronicity.

	$\Delta SYNCH_{i,t+1}$	$\Delta SYNCH_{i,t+1}$
INTERCEPT	12.67	-1.38
	(3.12)	(-5.61)
$SPIKE_{i,t}$	-41.87	-60.21
	(-4.78)	(-6.18)
$TIME_t$	-0.75	
	(-14.55)	
$\Delta LOGCAP_{i,t+1}$		3.08
		(8.98)
$\Delta ROA_{i,t+1}$		1.45
		(0.58)
$\Delta LOSS_{i,t+1}$		-0.86
		(-2.61)
$\Delta FIRMRET_{i,t}$		-4.15
		(-16.69)
$\Delta SHR_{i,t+1}$		0.28
		(2.37)
$\Delta ASSET_{i,t+1}$		5.41
		(4.24)
$LAMBDA_{i,t}$	16.40	23.65
	(4.66)	(6.04)
N	9,420	9,420

$SYNCH_{i,t}$ is the R^2 of the regression individual firm returns on the market and industry returns. $SPIKE_{i,t}$ is a dummy variable that takes the value of one if there is a "spike" for firm i at year t, zero otherwise). $LOGCAP_{i,t}$ is the log of the market capitalization (PACAP item MKTVAL) at the end of the month when the annual meeting occurs. $ROA_{i,t}$ is the ratio of PACAP item INC9 to PACAP item BAL9. $LOSS_{i,t}$ is a dummy variable that takes the value 1 if the net income (PACAP item INC9) is negative, 0 otherwise. $FIRMRET_{i,t-1}$ is the firm yearly return (PACAP item DRETWD) including the month when the annual meeting occurs and the 11 preceding months. $TIME_t$ is a time trend. $\Delta SHR_{i,t+1}$ is the absolute value of change in the total number of shares divided by the number of shares at t-1. $\Delta ASSET_{i,t+1}$ is the absolute value of the change in total assets divided by total assets at t-1. $LAMBDA_{i,t}$ is the inverse of the Mills ratio obtained from the first step regression. Coefficients for $\Delta PERC$ are multiplied by 100 for expositional clarity. Z-statistics are reported in brackets. Standard errors are corrected according to Maddala (1983).

attend, and meetings are less likely to be on the national meeting day. In other words, annual meetings become less perfunctory. Control variables unsurprisingly indicate that bigger firms attract more shareholders and that the average length of the meetings increases overtime.

Our results (not tabulated) are qualitatively similar when observations from firms subject to multiple "spikes" are included or when a "spike" is defined as lasting more than twice the average length of the meeting time for a given firm and more than thirty minutes (however, $SPIKEi,t$ becomes significantly positive in the second specification of the $\Delta LENGTH$ regression). Our results (nor results in 3.3.2, 3.3 and 3.4) are not affected when we include either $\Delta FOREIGN_{i,t}$ and $\Delta FIN_{i,t}$ or $\Delta DAY_{i,t}$ as additional control variables in the third specification.

When we consider the change between t+1 and t+2 or between t+2 and t+3, we do not observe a reversion to the mean. In fact, $SPIKEi,t$ is positive in the $\Delta ATTEND$, $\Delta PERC$, $\Delta MEETINGQ$, and $\Delta LENGTH$ regressions and negative in the ΔDAY regression (although the significance varies depending on the model considered). Finally, untabulated results from cross-sectional level regressions indicate that most of the meeting characteristics are below the average before the firm has experienced a long meeting but become either above or at the average after a "spike".

Table 6 - Analysis of Profitability.

	$\Delta ROA_{i,t+1}$	$\Delta ROA_{i,t+1}$
INTERCEPT	-0.77	-0.45
	(-0.39)	(-4.20)
$SPIKE_{i,t}$	9.39	14.53
	(1.97)	(3.34)
$TIME_t$	-0.02	
	(-0.66)	
$\Delta LOGCAP_{i,t+1}$		1.37
		(11.52)
$\Delta SHR_{i,t+1}$		0.04
		(0.68)
$\Delta ASSET_{i,t+1}$		-2.63
		(-4.63)
$LAMBDA_{i,t}$	-3.88	-5.90
	(-2.02)	(-3.38)
N	9,420	9,420

Z-statistics are reported in brackets. Standard errors are corrected according to Maddala (1983). Results for the industry dummies are omitted from column 1. Variables are defined in Table 3. Coefficients are multiplied by 100 for expositional clarity.

5.1.2 The Effect on Synchronicity

We compute $SYNCHi,t$, the R^2 of the following regression run on a calendar year basis:

$$R_{i,d} = a_1 + b_1 TOPIX_d + b_2 INDRET_d + e_{i,d} \qquad (4)$$

where Ri,d is the return for firm i on day d, $TOPIXd$ is the return from the TOPIX index on day d, and $INDRETd$ is the industry return on day d as reported by PACAP.[25] We then use the three specifications described in 3.3.2. The results reported in Table 5 indicate that long meetings lead to subsequent decreases in synchronicity. This is robust to including firms with multiple long meetings in the second specification or changing the definition of a long meeting to twice the average length. Control variables suggest that synchronicity increases with size but declines with past returns and losses. There is also a general trend toward a reduction of synchronicity. Untabulated results from a cross-sectional level regression indicate that the synchronicity is higher than the average before a "spike" but becomes indistinguishable afterward.

5.1.3 The Effect on Profitability

We then consider the effect of a "spike" on profitability. To do so, we regress $ROAi,t$ (or $\Delta ROAi,t+1$) and $LOSSi,t$ (or $\Delta LOSSi,t+1$) using the three specifications previously described.[26] To conserve space, we only tabulate the results of the second and third specifications when $\Delta ROAi,t+1$ is the dependent variable. Results in Table 6 indicate

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[25] We delete firm-year observations where less than 50 data points are available to calculate the R2.

[26] We also consider the log of the ratio of asset to market value. In the second and third models that control for endogeneity (where $LAMBDA$ is significant), a "spike" is strongly associated with a decrease in the ratio but $SPIKE$ is insignificant in the fixed effect regression. In addition, our results are unaffected when the ratio is used as an additional control variable in our different regressions.

Table 7 - Effect on Shareholder Composition.

	$\Delta FIN_{i,t+1}$	$\Delta FOREIGN_{i,t+1}$	$\Delta FIN_{i,t+1}$	$\Delta FOREIGN_{i,t+1}$
INTERCEPT	3.44	0.05	-0.28	0.54
	(1.74)	(0.03)	(-2.40)	(6.80)
$SPIKE_{i,t}$	-33.49	22.89	-37.62	16.29
	(-7.88)	(6.43)	(-8.22)	(5.14)
$TIME_t$	-0.37	-0.16		
	(-15.01)	(-7.48)		
$\Delta LOGCAP_{i,t+1}$			2.92	2.57
			(18.11)	(22.98)
$\Delta ROA_{i,t+1}$			0.04	0.46
			(0.03)	(1.03)
$\Delta LOSS_{i,t+1}$			-0.40	0.04
			(-2.57)	(0.39)
$\Delta FIRMRET_{i,t}$			-1.23	-0.85
			(-10.87)	(-10.56)
$\Delta SHR_{i,t+1}$			0.12	-0.04
			(2.12)	(-1.07)
$\Delta ASSET_{i,t+1}$			0.70	1.34
			(0.17)	(3.25)
$LAMBDA_{i,t}$	13.13	-9.32	14.74	-6.63
	(7.69)	(-6.52)	(8.02)	(-5.22)
N	9,420	9,420	9,420	9,420

$FOREIGN_{i,t}$ is the percentage of foreign shareholders (item JAF79 scaled by the total number of shares, JAF81), $FIN_{i,t}$ is the percentage of shares held by financial institutions (item JAF76-77, scaled by JAF81). Z-statistics are reported in brackets. Other variables are defined in Table 3. Standard errors are corrected according to Maddala (1983). Results for the industry dummies are omitted from column 1 and 2. Coefficients are multiplied by 100 for expositional clarity.

that a "spike" is the precursor of an improvement in ROA.[27] When we consider the change between the year prior to the "spike" and the average of the following three years, $SPIKEi$, is significantly positive (results not tabulated).[28] In addition, $SPIKEi,t$ becomes strongly significant across all specifications in the ΔROA regression when the change between t+1 and t+2 or t+2 and t+3 is considered (the z-statistic for $SPIKEi,t$ is greater than 5). In the $\Delta LOSS$ regressions, $SPIKEi,t$ is negative in later periods (although the significance disappears in some specifications). Additional untabulated results also indicate that firms sell a significant amount of assets. These sales do not appear to be designed to artificially increase reported earnings but instead often trigger a loss in the year of the restructuring.[29] In other words, the improvement is due, at least in part, to the disposal of non-performing assets and a reduction in over-investment.

5.1.4 The Effect on Shareholder Composition

Finally, we consider the impact on shareholder composition. We run the three specifications previously described using the percentages of ownership of financial

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[27] Only two firms that had long meetings and should otherwise be included in our sample were delisted in the subsequent year due to bankruptcy. This suggests that our results are not driven by survivor bias.

[28] However, the variable is not significant in the fixed effect regression, perhaps because of the lack of control for endogeneity (LAMBDA is significant in the two step regression).

[29] Note, however, that the occurrence of loss is affected by both the economic performance of the firm and of the accounting policy. If the firm becomes more forthcoming with bad news, the likelihood of accounting loses may increase, even though the true profitability is increasing.

Table 8 - Cross-sectional Effect of $DAY_{i,t}$.

	$LENGTH_{i,t}$	$ATTEND_{i,t}$	$PERC_{i,t}$	$MEETQ_{i,t}$
INTERCEPT	-12.76	-381.44	3.673	-2.33
	(-6.95)	(-21.34)	(36.14)	(-11.84)
$DAY_{i,t}$	-1.95	-15.28	-0.49	-0.18
	(-4.34)	(-5.03)	(-12.14)	(-2.69)
$LOGCAP_{i,t}$	3.96	44.66	-0.21	0.26
	(19.33)	(36.38)	(-19.37)	(9.67)
$ROA_{i,t}$	-25.63	-228.60	1.45	-1.74
	(-6.18)	(-4.74)	(6.38)	(-6.49)
$LOSS_{i,t}$	1.85	2.76	-0.28	0.12
	(3.08)	(0.77)	(-15.97)	(2.55)
$FIRMRET_{i,t-1}$	-2.16	-19.20	0.09	-0.08
	(-1.63)	(-2.79)	(2.48)	(-0.99)
R^2	10.52	22.92	12.81	6.86
N	12,566	12,566	12,566	12,566

	$ROA_{i,t}$	$LOSS_{i,t}$	$SYNCH_{i,t}$	$FIN_{i,t}$	$FOREIGN_{i,t}$
INTERCEPT	-6.81	80.29	-0.66	-0.30	-19.43
	(-9.02)	(19.37)	(-11.74)	(-18.94)	(-9.37)
$DAY_{i,t}$	-0.54	3.23	0.04	0.05	-1.45
	(-1.97)	(1.76)	(11.60)	(19.36)	(-7.83)
$LOGCAP_{i,t}$	0.76	-6.24	0.08	0.06	2.43
	(12.31)	(-17.42)	(13.21)	(31.83)	(10.62)
$ROA_{i,t}$			-0.18	-0.06	3.94
			(-2.44)	(-2.18)	(1.36)
$LOSS_{i,t}$			0.01	-0.01	0.41
			(1.44)	(-4.57)	(1.68)
$FIRMRET_{i,t-1}$			-0.05	-0.03	0.21
			(-3.63)	(-7.73)	(0.34)
R^2	5.16	6.17	46.62	30.43	20.63
N	12,566	12,566	12,566	12,566	12,708

Z-statistics are reported in brackets; all standard errors are robust and allow for clustering of observations by year. Coefficients for *PERC, FIN, FOREIGN, ROA* and *LOSS* have been multiplied by 100 for expositional clarity. $ATTEND_{i,t}$ is the number of shareholders attending the annual meeting of firm i at time t. $PERC_{i,t}$ is the percentage of shareholders attending the annual meeting. $SENTQ_{i,t}$ is the number of questions sent by mail to the firm before the annual meeting. $MEETQ_{i,t}$ the number of questions asked at the meeting. $LENGTH_{i,t}$ the length of the annual meeting in minutes. $FOREIGN_{i,t}$ and $FIN_{i,t}$ are shares owned by foreigners (item JAF79) or by financial institutions (item JAF76-77) scaled by total number of shares (JAF81). $LOSS_{i,t}$ is a dummy variable that takes the value 1 if the net income (PACAP item INC9) is negative, 0 otherwise. $SYNCH_{i,t}$ is the R^2 of the regression of individual on market and industry returns. $DAY_{i,t}$ is a variable that takes the value of one if the annual meeting is held on the mode date for the date, 0 otherwise. $LOGCAP_{i,t}$ is the log of the market capitalization (PACAP item MKTVAL) at the end of the month when the annual meeting occurs. $FIRMRET_{i,t-1}$ is the firm yearly return (PACAP item DRETWD) including the month when the annual meeting occurs and the 11 preceding months.

institutions and foreign investors as dependent variables. To conserve space, we only tabulate the results for the endogenous specifications. Results reported in Table 7 indicate the percentage held by financial institutions decreases as foreigners buy more stocks. This is also true when the change s between t+1 and t+2 or t+2 and t+3 are considered.

5.2 The Effect of Meeting Clustering

Overall, these empirical results suggest long meetings and activism have positive effects. In fact, the policy of encouraging firms to hold their meetings on the same day may be counterproductive. Surveys indicate that Japanese mutual fund managers

consider that the concentration of meetings prevents them from effectively lobbying firms to improve corporate governance (Omura [1998]). To analyze the effect of meeting clustering, we estimate cross-sectional regressions where the treatment variable is whether the firm has its annual meeting on the national day or not. Results reported in Table 8 indicate that firms that have their annual meetings on the national day tend to have shorter meetings and with fewer shareholders attending, asking fewer questions. They also have a higher synchronicity, a lower ROA and a higher likelihood of suffering from losses. They attract fewer foreign or individual shareholders. Results (not reported) are qualitatively similar when we use a treatment effect model (to control for the endogeneity of the annual meeting date) instead of cross-sectional regressions,[30] when we cluster observations by firms instead of years or when we use a SUR specification. These results and the fact that firms that have their meetings on the national meeting day are less likely to be targeted by activists (Table 2, column 1) also suggest that underperforming Japanese managers strategically use the perceived threat of the *sôkaiya* to protect themselves by clustering their meetings. In contrast, this does not support the argument that managers choose to have long meetings to disclose more information to reassure their shareholders before improving the administration of their firms. It does suggest that the policy of supporting the clustering of meetings should be reversed by the Japanese authorities.[31]

6. Conclusion

Prior research on whether shareholder activists can force managers to improve their behavior provides mixed results. In Japan, however, alternative channels for improvement are not as effective as they are in the U.S. Thus, challenging the management during annual meetings may be the only option for disgruntled shareholders in Japan to exert pressure. Hence, this provides a more powerful setting to study this question. Yet, the situation is complicated by the existence of corporate racketeers who disrupt these events to blackmail managers. Anecdotal evidence and results from surveys suggest that this form of corporate racketeering is prevalent in Japan. In response, the authorities have taken various measures to reduce the importance of annual meetings to minimize the influence of organized crime. Yet, this policy comes at the expense of legitimate shareholder activism.

Empirical results indicate meetings following a "spike" become more active. In addition, the synchronicity of the firm with the rest of the exchange declines, suggesting more firm-specific information is incorporated. Contrary to most results obtained in the U.S., the ROA improves, in part because of the disposal of non-performing assets. Finally, the percentage of shares held by foreign investors increases, while the

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[30] We use $SPIKE_{i,t}$, market returns, industry dummies and log of asset in the first stage.

[31] It is possible, however, that the *sôkaiya* had already taken control of all the firms they could before 1991. If this is true, such firms may not appear in our sample of "spikes" but *sôkaiya* may still exert an influence. Thus, the policy recommendation may be reversed if this is the case and several additional conditions are met: there is an exogenous departure from the equilibrium at some point in the future, the clustering prevents *sôkaiya* from reverting back to the current equilibrium and the cost of preventing this hypothetical return is less than the cost imposed by the restrictions of legitimate activism. However, we have no empirical support for such a scenario.

percentage held by financial institutions decreases. These results are robust to control for endogeneity. Overall, these results suggest that shareholder activists are able to capitalize on the embarrassment caused by long meetings to improve governance. The fact that prior literature found mixed results on the ability of activists to play a significant role may be due to the difficulty to identify their marginal effect in a setting where investors have numerous avenues of recourse against managers.

At the same time, Japanese managers appear to be strategically using the threat of organized crime as a way to reduce legitimate outside pressure. Firms having their meetings on the national meeting day are less likely to be targeted by activists. They also under-perform in terms of profitability and governance. Not surprisingly, they have more financial institutions among their shareholders but fewer foreign shareholders. These results suggest that the policy of protecting managers against shareholder activists should not be supported by the authorities.

Acknowledges

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