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The evolution of ownership structure in Japanese firms (1962-2012)

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The evolution of ownership structure in the Japanese firms (1962–2012)

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2.1. Introduction

In this chapter, we investigate the evolution of ownership structure and corporate governance in Japanese firms based on the entire population of listed firms from 1962 to 2012. Ownership structure is one of the main corporate governance mechanisms, and many prior studies focus on the characteristics of the ownership structure of Japanese firms (Gedajlovic and Shapiro, 2002; Gedajlovic, Yoshikawa, and Hashimoto, 2005; Lichtenberg and Pushner, 1994; Prowse, 1992; Yoshikawa and Phan, 2003). The concepts of stable shareholding and cross-shareholding represent the traditional ownership structure, and the bank-centered financial system or main bank system has been perceived as the conventional corporate governance framework in the Japanese firm system (Ahmadjian and Okumura, 2005; Ahmadjian and Robinson, 2001; Berglof and Perotti, 1994; Gerlach, 1992; Hoshi, Kashyap, and Scharfstein, 1990; Kang and Shivdasani, 1995; Morck and Nakamura, 1999; Sheard, 1994). Although prior studies examine this topic, there has not been much focus on the evolution of ownership structure and corporate governance in Japanese firms from a long-term perspective and with the entire firm population. We aim to address these gaps by analyzing the evolution of ownership structure using the entire population of listed firms with longitudinal data.

Our main purpose is to provide the big picture of the evolution of ownership structure and corporate governance in Japanese firms so that we can better understand how the Japanese firm system has evolved over time. Most previous research touches on this topic by using limited samples of firms (for example, the first section of the Tokyo Stock Exchange, the manufacturing industry, etc.) and some specific time span depending on data availability. This approach is useful when researchers handle specific research questions. However, such an approach will not allow us to understand the evolution of the Japanese firm system from a historical viewpoint. Thus, we address this issue by using the entire population of listed firms with the 50-year time span from 1962 to 2012.

In addition, we aim to investigate the impacts of the major external (both global and domestic) shocks that may have driven significant changes in ownership structure and corporate governance. Prior research that examines the impact of external shocks usually looks at a single event, such as the Asian Financial Crisis (Baek, Kang, and Park, 2004; Joh, 2003; Johnson et al., 2000; Lemmon and Lins, 2003; Mitton, 2002). Instead, we will investigate the impact of all major events that took place from the 1970s to the present. By so doing, we will be able to show that each shock is situated in a specific time period and that hence each has a varying impact on firm systems in Japan. One of the key implications of our study is that we will be able to provide insights on how much Japanese corporate governance has shifted and where it is heading given the changes in ownership structure driven by major environmental changes.

2.2. Sample and data

We rely on several databases to collect our data for this study. We use the DBJ (Development Bank of Japan) database for ownership and financial data. This database contains the 10 largest shareholders list and their shareholding ratios from 1981 to present.[1] We also use the ownership and board database 2012, developed by the Center for Economic Institutions in the Hitotsubashi University for the pre-1981 period.[2] This database provides the 10 largest shareholders list and their shareholding ratios before 1981. By combining these two databases, we will be able to trace the evolution of ownership structure of Japanese firms from 1962 to 2012. To capture the ownership evolution in Japanese firms, we classify the 10 largest shareholders into 10 categories: bank, insurance, securities, corporate, other financial company (including venture capital), individual, employee stock ownership plan (ESOP), foreign investor, foundation, and others.

As the main purpose of our study is to provide the big picture of the evolution of ownership structure and corporate governance in Japanese firms, we do not present results for each of the 10 categories because the portions of some categories are not high and do not show much evolution or fluctuations by year. We instead combine bank, insurance company, and securities company into one category, and we call this group "financial ownership." Financial ownership is thus measured as the ratio of shareholdings by banks, insurance companies, and securities companies that are among a firm's 10 largest shareholders. Similarly, corporate ownership is measured as the ratio of shareholdings by corporate investors that are among a firm's 10 largest shareholders. Individual ownership is defined by the ratio of shareholdings by individuals who are among a firm's 10 largest shareholders, and foreign ownership is measured as the ratio of shareholdings by foreign investors who are among a firm's 10 largest shareholders. We use the aggregated ratio of the firm's 10 largest shareholders to measure the ownership structure of Japanese firms, as we expect that these investors are likely to be influential.

Our sample consists of all publicly listed nonfinancial firms in Japan for the period from 1962 to 2012. The original sample size of this study is 5,022 firms, while the number of listed firms varies each year due to new listings, delisting, mergers, and bankruptcy.

2.3. The history of the stock market in Japan

Figure 2.1 shows the number of IPO firms by year from 1949 to 2012. We can see that three major events took place during the period from 1949 to 2012.

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[1] DBJ database basically covers whole listed nonfinancial corporations in Japan. One limitation of this database is that it does not cover corporations that were delisted before 1980. Though we do not have the list of corporations delisted from 1949 to 1980, we suppose the delisting ratio is not high in Japan during this period. Thus, we suppose our sample is close to the population base of listed corporations in Japan.

[2] The Center for Economic Institutions at the Hitotsubashi University developed its ownership (covering 1950–1983) and board (covering 1962–1988) databases for all Japanese listed firms available to researchers. http://cei.ier.hit-u.ac.jp/Japanese/publication/database2.html

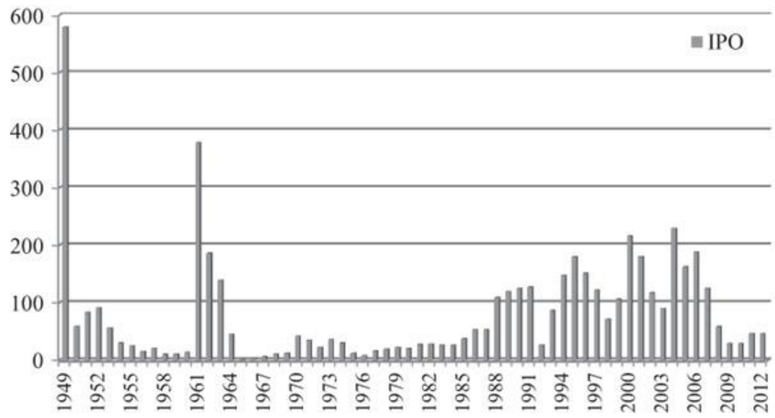

Figure 2.1 Number of IPO firms by year (1949–2012).

The Japanese stock market reopened in 1949 after World War II, and more than 700 firms went public in that year. The second section of the stock market started in 1961, and during 1961 to 1964 about 700 firms went public. There were no major IPO events and no new momentum on IPOs in the Japanese stock market from 1965 until 1987. This suggests that the IPO firms that went public from 1949 to 1964 were the main players in the postwar Japanese economy. Some prior studies focus on these firms and reveal that stable shareholding and cross-shareholding were typical ownership structures of Japanese firms and that the main bank system functioned as the corporate governance system in Japan (Berglof and Perotti, 1994; Hoshi, Kashyap, and Scharfstein, 1990; Kang and Shivdasani, 1995; Morck and Nakamura, 1999; Morck, Nakamura, and Shivdasani, 2000). Around 1988, the new stock market (JASDAQ) became active, and 115 IPO events occurred on average from 1988 to 2012.

We argue that IPO firms that went public from 1949 to 1960 (we call this "Group 1" throughout this chapter) and IPO firms that went public from 1961 to 1964 have totally different firm characteristics, including the ownership trait. We believe that this is an important perspective when we analyze the Japanese firm system in evolution.

The General Headquarters (GHQ) dissolved the prewar ownership structure of the major Japanese firms run by zaibatsu-related firms and excluded zaibatsu-related persons from management positions after the World War II. This means that Group 1 firms' ownership structure was dissolved by an outside force, and this policy was the external shock faced by Group 1 firms. On the other hand, IPO firms that went public from 1961 to 1964 did not experience this sort of external shock, and, thus, we argue that these two groups have different firm characteristics, including ownership structure. We show the key differences in firm characteristic between these two groups in Table 2.1.

Table 2.1 provides summary statistics for the IPO firms that went public from 1949 to 1960 and the IPO firms that went public from 1961 to 1964, as well as the results of the mean comparison test. The mean value of each group is the average of the variable during 1962 to 1970. *** indicates that the mean difference between two groups is statistically significant at the 1 percent level.

Firm size is measured as the log value of total assets. Firm age is calculated from the establishment year. The total debt ratio is measured as the ratio of total debts to total assets. Long-term debt ratio is measured as the ratio of long-term debt to total assets, and short-term debt ratio is measured as the ratio of short-term debt to total assets. ROA is measured as the operating income divided by the book value of total assets. The sales growth is measured as the annual nominal growth ratio of sales. Ownership concentration is defined as the sum of shareholding among the 10 largest shareholders.

As is clear from Table 2.1, two groups have totally different firm characteristics and ownership traits. The IPO firms that went public from 1949 to 1960 are larger and older, and they have stronger relationships with the banking sector than the IPO firms that went public from 1961 to 1964, but firm performance (measured by ROA and sales growth) of the former group is weaker than that of the latter group. We will touch on the ownership difference later. Thus, we argue that these differences are critical to better understand the Japanese firm system in evolution by comparing the IPO firms that went public from 1949 to 1960 and the IPO firms that went public from 1961 to 1964 as they have totally different firm characteristics including their ownership traits.

Table 2.1 Comparison of firm traits between two groups

Variables	*1949 <IPO< 1960 Group*	*1961 <IPO< 1964 Group*	*Difference*	*T Value*
Firm size	16.78	15.35	1.43***	55.26
Firm age	36.25	25.16	11.09***	39.28
Total debt ratio (%)	32.41	24.66	7.75***	26.76
Long-term debt ratio (%)	18.38	10.79	7.59***	30.65
Short-term debt ratio (%)	14.03	13.87	0.16	0.76
ROA (%)	7.73	8.92	−1.19***	11.35
Sales growth (%)	14.70	18.54	−3.84***	11.66
Ownership concentration (%)	40.75	48.89	−8.15***	24.69
Financial ownership (%)	21.67	9.33	12.34***	59.77
Corporate ownership (%)	14.37	19.88	−5.52***	13.90
Individual ownership (%)	2.96	18.04	−15.07***	59.83
Foreign ownership (%)	1.06	0.91	0.15	1.31

Note: *** indicates statistical significance at the 1% level. The column difference means the value of 1949 < IPO < 1960 group minus the value of 1961 < IPO < 1964 group. T value indicates the result of T-statistics mean comparison test between two groups.

2.4. Evolution in the ownership concentration

As Figure 2.1 shows, the IPO distribution was not smooth from period to period. We classify IPO firms that went public from 1949 to 1960 in Group 1 (994 firms). This group represents the prewar zaibatsu-related firms and postwar keiretsu-related firms. We classify IPO firms that went public from 1961 to 1987 into Group 2 (1,294 firms). This group represents smaller and newer non-prewar zaibatsu-related firms.[3] We classify IPO firms that went public from 1988 to 2008 into Group 3 (2,734 firms).

Figure 2.2 provides the average ownership concentration level of all the sample firms and that of each of the three subgroups by IPO year, not by fiscal year.[4] The full sample trend shows that the ownership concentration among largest 10 shareholders has been decreasing through the firm survival and growth. Surprisingly, if we divide the full sample into subgroups, we could find a different story. Figure 2.2 shows that Group 2 and Group 3 follow the same pattern as the entire sample firms, yet Group 1 does not. The ownership concentration level of Group 1 was increasing until IPO year 24 (around 1973 fiscal year). Thus, Group 1 has quite different ownership characteristics compared to Groups 2 and 3. As discussed in

[3] If we apply the family firm perspective to this group, then 60 percent of the firms are the case. We do not touch on the family firm issue in this chapter as this issue is beyond our scope.

[4] The average value of ownership concentration for Group 1 begins from IPO year 2 due to data availability.

the previous section, this difference largely comes from the GHQ policy. Thus, it is important to note that, although there were many IPO events from 1949 to 1964 (just 15 years), the IPO firms that went public from 1949 to 1960 and the IPO firms that went public from 1961 to 1964 have different ownership traits and evolution pattern.

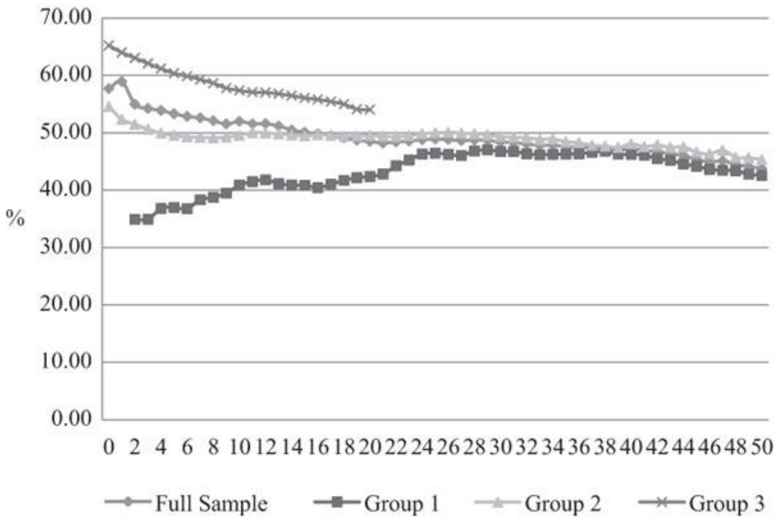

Figure 2.2 Ownership concentration evolution (among top 10, by IPO year).

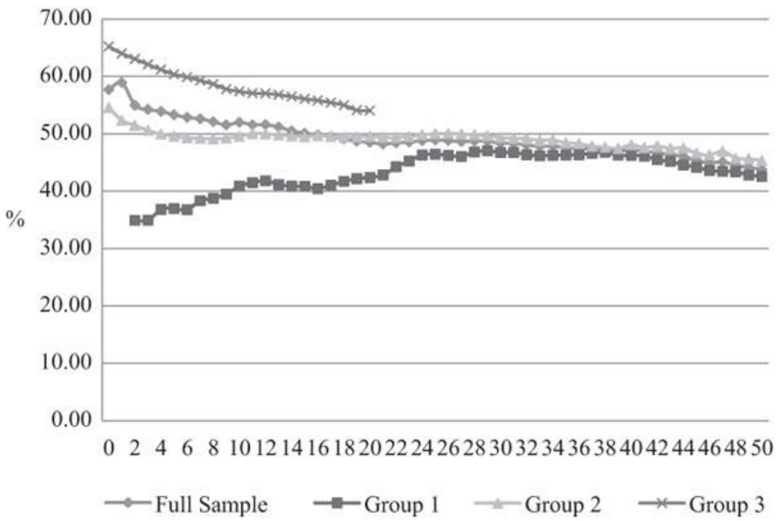

Figure 2.3 Ownership concentration evolution (among top 10, by fiscal year).

Figure 2.3 shows the average ownership concentration level of the entire sample and each of the three subgroups by fiscal year. These figures reconfirm the story shown in Figure 2.2. To summarize this section, Group 1 and Group 2 have different ownership characteristics, which is largely driven by the GHQ policy. It is important to take this difference into consideration when we analyze the evolution of the Japanese firm system.

2.5. Ownership evolution

As mentioned in the sample section, we classify the 10 largest shareholders into 10 categories: bank, insurance, securities, corporate, other financial company (including venture capital), individual, employee stock ownership plan (ESOP), foreign investor, foundation, and others. Among these 10 categories, we focus on bank, insurance, securities, corporate, individual, and foreign investors because these owners are the main players in Japan. We combine bank, insurance, and securities into one category and call this “financial ownership.” Thus, main category for this section consists of financial, corporate, individual, and foreign investors.

Figure 2.4 provides the average ownership levels for four categories for the Group 1 firms during 1962 to 2012. Although financial ownership shows some fluctuations, it was an upward trend from 1962 to 1990, and it was a downward trend from 1991 to 2012. The financial ownership level in 2012 is smaller than that in 1962 by 5.33 percent. The corporate ownership went up rapidly from 13 percent to 19 percent during 1962 to 1973, showed stable movement thereafter, and then showed up-and-down movement from 2002 to 2012. In addition, financial ownership was always higher than corporate ownership throughout our sample periods (1962–2012). Thus, in terms of ownership ratio, financial owners have been the most powerful players as a large shareholder in Group 1. Individual ownership is not the main part in Group 1. Average foreign ownership during 1962 to 1995 was 1.08 percent, but the average foreign ownership from 1996 to 2012 was 2.40 percent. This indicates that the presence of foreign investors in Japan has increased quite recently.

Previous research on ownership structure in Japan mainly focuses on stable shareholders and cross-shareholdings. The keiretsu system, or main bank system, is also closely related to the ownership characteristics of the Japanese firm. The main story is that, after many firms went back to the stock market in 1949, they had to resort to stable shareholding arrangements due to GHQ policy. There were several hostile takeovers during the 1950s, and prewar zaibatsu-related firms (the main part of Group 1) tried to utilize stable shareholdings to defend themselves against such market pressure. As the maximum bank ownership per each firm was 5 percent due to regulation and thus the prewar zaibatsu firms could not count on banks alone to hold their shares, they attempted to establish stable shareholdings through other prewar zaibatsu-related firms. Figure 2.4 displays this story well. In summary, Group 1 is the representative of the traditional Japanese firm system that is based on the main bank, or keiretsu system and stable shareholdings in postwar Japan.

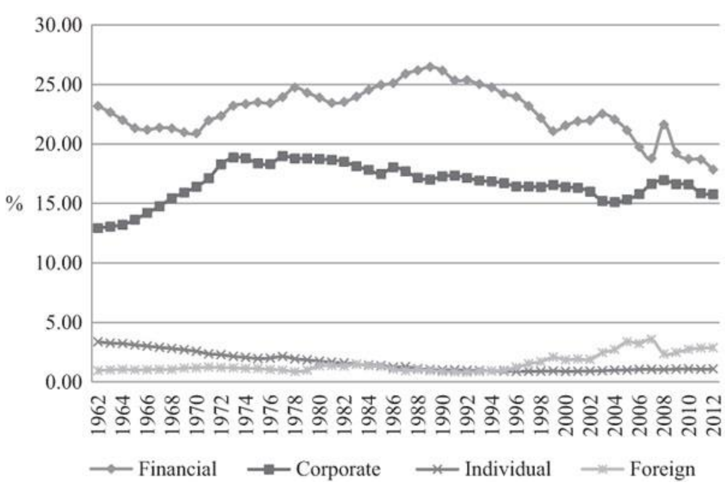

Figure 2.4 Group 1 ownership evolution (among top 10, by fiscal year).

Figure 2.5 provides the average ownership level for four categories of the Group 2 firms during 1962 to 2012. Figure 2.5 indicates that ownership structure and evolution of Group 2 are totally different from those of Group 1. In the initial stage of IPO (during 1962 to 1966), the main shareholder was the individual. Individual ownership declined following firm growth and survival. The corporate ownership trend is very similar to that of Group 1. Until 1973, corporate ownership was increasing rapidly, and it showed stable movement after that. Corporate ownership was higher than financial ownership throughout the period from 1962 to 2012, which is quite the opposite of the Group 1. Financial ownership evolution is similar to Group 1. From 1962 to 1990, financial ownership increased from 8 percent to 19 percent and decreased slowly from 1991 to 2012. The foreign ownership trend was also very similar to that of Group 1.

Figure 2.6 provides the average ownership level for four categories of Group 3 firms during 1991 to 2012. The trend in this period was similar to that of Group 2 firms. In terms of ownership ratio, corporate owners have been the most powerful players as the large shareholder in Group 3.

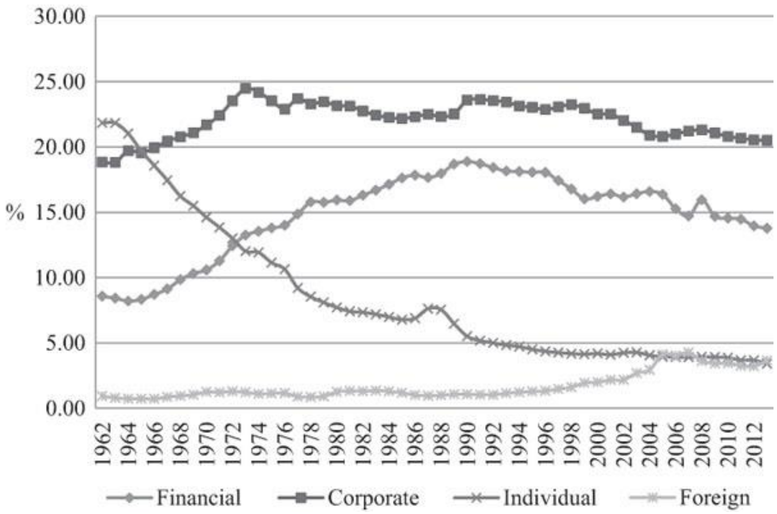

Figure 2.5 Group 2 ownership evolution (among top 10, by fiscal year).

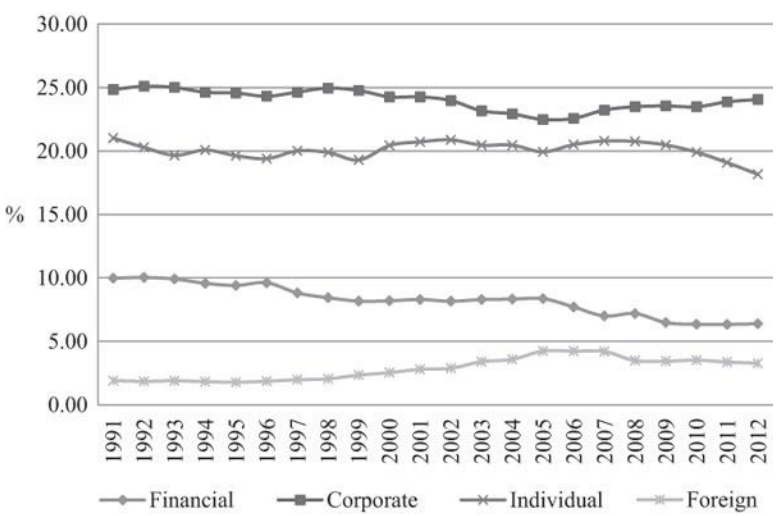

Figure 2.6 Group 3 ownership evolution (among top 10, by fiscal year).

To summarize this section, Group 1 and Group 2 firms have very different ownership characteristics and evolution over time. Most Group 1 firms were operating during the war, were temporarily delisted due to the stock market closure, and then went public again when the stock market was reopened in 1949. This implies that they already had business resources and established business networks and relationships when they went public in 1949. Especially, they had close relationships with the financial sector, including banks, insurance, and securities from the initial stage of IPOs. This fact is reflected in Group 1 firms' ownership structure; the main shareholders of Group 1 in the early stage of the IPO were financial institutions. In contrast to Group 1, financial ownership was not the main player in Group 2 firms in the early stages of their IPO, but rather individual ownership was the main one. This indicates that most of Group 2 firms likely did not have strong relationships with the financial sectors as these firms were newly established. Thus, the conventional model of the Japanese firm system established through keiretsu formation, or the main bank system formation, or cross-shareholding or stable shareholding is applicable only to Group 1 firms. This is the key message from our analysis. We should therefore distinguish Group 1 and Group 2 firms when we investigate the Japanese firm system in evolution.

2.6. Economic shock and corporate governance perspectives

Ownership structure is one of the main corporate governance mechanisms. Under the assumption of the separation of ownership and control, the firm needs to have some mechanism to monitor the managerial discretion. The financial market is expected to play this role through M&As (the market for corporate control) in the United States as an outside pressure to the firm. The managerial compensation package and outside board of directors are also expected to play this role as an internal mechanism in U.S. firms.

Unlike in the United States, there was not much M&A activity, especially hostile takeovers, in Japan until 1990. Most M&As until 1990 were for the purpose of rescuing underperforming firms. Japanese boards have been dominated by insider executives because a board position is often perceived as the highest rank that employees can aspire to reach after their long service to the firm (Charkham, 1994). As there was no formal requirement to have outside directors until quite recently, the number of outside directors on many Japanese boards has been rather small, and those directors were usually affiliated rather than independent outsiders (Miwa and Ramseyer, 2005). In most cases, outside directorships have been used to cement business relationships and to monitor management on behalf of affiliated firms that often hold shareholdings in the focal firm as strategic owners (David et al., 2010). In addition, stock option compensation was not legal in Japan before 1997. Thus, the managerial compensation package and outside board of directors were not the main corporate governance mechanisms in Japanese firms.

Previous research shows that the bank has been playing a main corporate governance role in Japan. This system is called the "main bank system" or "bank-centered financial system." Most firms borrow money from banks, and many banks also hold shares of firms to which they provide loans. Thus, the Japanese bank has a strong information advantage over its borrower firms. Using this advantage, they are expected to play a corporate governance role.

In this section, we investigate the ownership evolution from a corporate governance perspective and examine the impacts of the major external (both global and domestic) shocks that may have driven significant changes in ownership structure and thus corporate governance. Figure 2.7 provides the average bank ownership for our three groups during 1962 to 2012.

While there are some variations and fluctuations by group and time span, we could interpret that bank ownership shows an increasing trend from 1962 to 1990 and a decreasing trend from 1991 to 2012. What happened in Japan in 1990? There was bubble burst in 1990, which was a turning point to the bank ownership and corporate governance system in Japan. Both Group 1 and Group 2 firms had a strong relationship with the banking sector until 1990. This was especially true for Group 2 firms even though this group had no strong relationship with this sector around the early stage of their IPOs. The bank ownership rapidly increased from 1962 to 1972 (from 2.7 percent to 7.9 percent) in Group 2 firms and also it kept an increasing trend from 1973 to 1990.

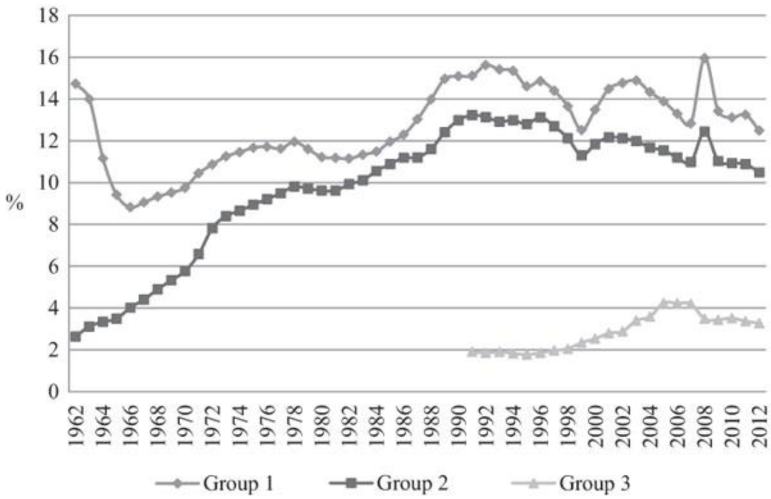

Figure 2.7 Bank ownership evolution (among top 10, by fiscal year).

This close relationship with the banking sector was strongly influenced by the bubble burst, with which the banking sector was facing a difficult situation. The banks themselves had poor BIS (Bank for International Settlements) ratios due to this shock. With several firms experiencing severe performance trouble, the banks, as their main banks, needed to rescue them. This effect did not show up suddenly, but it came like constant body blows to the Japanese banks. Its effect was ultimately shown in the bankruptcies of Yamaichi Securities and Hokkaido Takushoku Bank in 1997. This is reflected in Figure 2.7, which shows that bank ownership decreased rapidly from 1996 to 1999.

The Japanese government attempted to make changes to the financial sector framework, such as by orchestrating banks to merge with one another. The government called this policy a “Financial Big Bang,” which was introduced around 2000. As a result of this policy, the number of major commercial banks was reduced from 17 to just 4. In addition, the maximum shares that a bank can hold was capped at 5 percent by the regulation. This indicates that the Financial Big Bang had significant effects on bank ownership, although Figure 2.7 does not show such an effect.

We argue that this phenomenon was due to the entry of newly established trust banks. The Master Trust Bank of Japan, Ltd and Japan Trustee Services Bank, Ltd show their names among the 10 largest shareholders in many Japanese firms after 2000. The 5 percent regulation does not apply to trust banks, and these two banks may hold more than 5 percent of a firm’s stock. We suspect that these two trust banks have a mitigating role in the Financial Big Bang effect on bank ownership. We will show this issue in the Appendix to this chapter in more detail.

In summary, bank ownership increased from 1962 to 1990 for both Group 1 and Group 2 firms, suggesting that the banking sector had gained strong power over Japanese firms and had a critical role to play in the corporate governance system. This situation has, however changed due to the bubble burst and the Japanese Financial Big Bang. Thus, the banking sector lost its power to monitor their borrower firms slowly from 1991 to 1999 and especially after the Financial Big Bang in 2000.

Figure 2.8 provides the average corporate ownership by our three groups during the period 1962 to 2012. The evolution of corporate ownership shows very similar trends for Group 1 and Group 2 firms. Corporate ownership rapidly increased from 1962 to 1973 and then shows a slight downward trend from 1973 to 2000, with ownership level fluctuating from 2001 to 2012. We can thus classify our entire sample period in the three periods for corporate ownership. The first is the rapid growth period, or rapid business relationship formation period (1962–1972). The second is the stable period, or stable business relationship period (1973–2000). The last is the fluctuation period, or new business relationship formation period (2001–2012). We have shown that Groups 1 and 2 firms have different ownership characteristics and evolution in the previous section. However, the trend of corporate ownership is very similar between these two groups. This implies that some common factor likely affected this movement.

Figure 2.8 tells us that the banking side shock indirectly affected corporate ownership. The Japanese firm system has been supported and monitored through the banking sector, strongly in Group 1 and moderately in Group 2. Thus, restructuring in the banking sector likely affected the Japanese firm system.[5] Corporate ownership in both Group 1 and Group 2 shows some variations and fluctuations from 2001 to 2012.

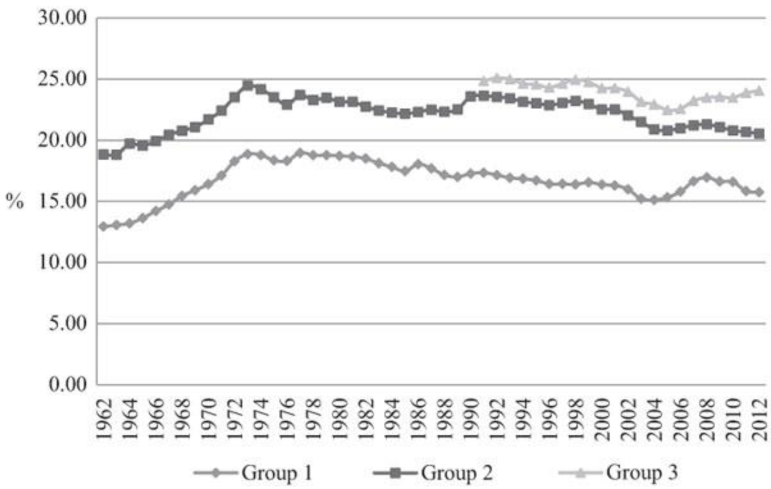

Figure 2.8 Corporate ownership evolution (among top 10, by fiscal year).

In summary, corporate ownership change represents the rapid business relationship formation period (1962–1972), stable business relationship period (1973–2000), and new business relationship formation period (2001–2012). In addition, corporate ownership evolution is strongly affected by the banking sector, especially after the Financial Big Bang.

Figure 2.9 provides the average foreign ownership by our three groups during the period 1962 to 2012. Foreign owners were not main players among the largest 10 shareholders from 1962 to 1998 in Japan. This trend started to change around 1998, and foreign ownership kept increasing after 1998 for both Group 1 and Group 2. This trend also applies to the Group 3 firms. The average foreign ownership was 2.87 for Group 1 and 3.22 for Group 2 and 3.27 for Group 3 in 2012. We expect this upward trend will likely continue and that foreign owners will be the main player as a large shareholder and activist in Japan in the future (Ahmadjian and Robbins, 2005; Colpan and Yoshikawa, 2012). We provide more fine-grained statistics for foreign ownership in Table A2.3 in the Appendix.

[5] We provide the number of delisted firms during 1981 to 2010 in the appendix. This figure supports our argument in this section.

To summarize this section, the Japanese corporate governance system started to change sometime after the bubble burst. The banking sector was damaged slowly by the bubble burst, and this system was drastically changed around 2000 when the government implemented the so-called Financial Big Bang. After 2000, the governance role of the banking sector has been severely reduced. From 2000 to 2012, corporate relationships also changed due to the Financial Big Bang effect. After 1998, foreign ownership started to increase, and we believe that foreign investors have an important role as activist investors in Japan. This is the summary of the reinterpretation of Japanese firm ownership evolution from the corporate governance perspective.

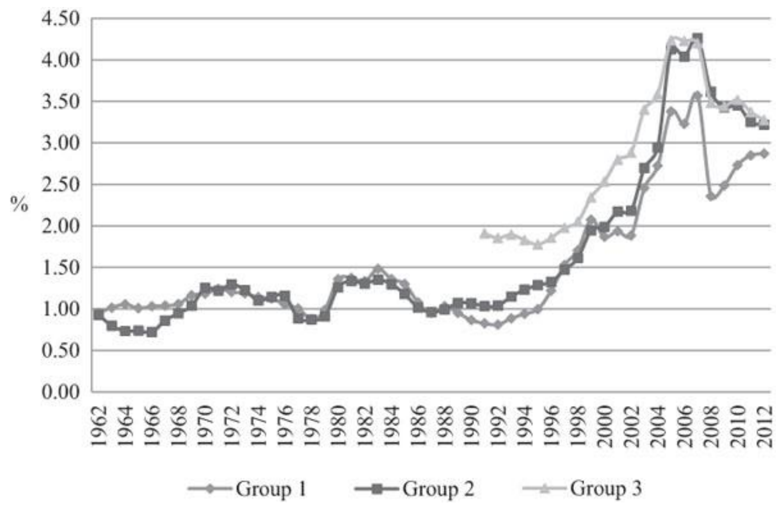

Figure 2.9 Foreign ownership evolution (among top 10, by fiscal year).

2.7. Concluding remarks

In this chapter, we investigated the evolution of ownership structure and corporate governance in Japanese firms based on analyses using the entire population of listed firms from 1962 to 2012. We find that the IPO firms that went public from 1949 to 1960 (Group 1 firms) and the IPO firms that went public from 1961 to 1964 have totally different firm characteristics, including the ownership pattern. We argue that this is a new and important perspective that provides an interesting insight in deepening our understanding of the Japanese firm system in evolution.

We also investigated the impacts of the major external (both global and domestic) shocks that may have driven significant changes in ownership structure and corporate governance. We find that the Japanese firm system has a functional corporate governance mechanism from 1973 to 1990, but this system started to change sometime after the bubble burst and was further challenged due to the Financial Big Bang.

We believe that there are still several unanswered questions, and we expect that future work will handle these issues. First of all, are the two major trust banks, The Master Trust Bank of Japan, Ltd and Japan Trustee Services Bank, Ltd, activist or not? These two trust banks replaced some bank shareholdings, but there is no research to show the role of these two trust banks. We believe that this is an interesting research question.

Secondly, the business relationship has also changed after the Financial Big Bang. We sometimes hear that there are no longer keiretsu relationships in Japan after 2000. Is this true? What is the difference between pre–Financial Big Bang corporate relationships and post–Financial Big Bang corporate relationships? What factor affects these business relationships between the different periods? Although more than 10 years have passed since the Financial Big Bang, no research addresses this question.

Thirdly, the foreign ownership effect appears in all three categories. Group 3 consists of mostly new IPO firms, and hence those firms still do not have much reputation and are not well-known. Yet foreign owners are also investing in this group. Thus, it would be interesting to look into factors that are driving foreign owners' investment behavior and the implications of their shareholdings in those smaller firms.

Lastly, corporate governance in family firms is also a promising area, as many family firms are in Group 2 and Group 3. Though the family firm is a hot topic in recent years, there is not much research regarding the family firm and corporate governance issue from a broader perspective and especially in the Japanese context.

In addition, Japan provides an interesting research setting for the family firm topic. We identify two peaks of IPOs in 1949 and 1961. After their closure during the war and the postwar confusion, the stock exchanges reopened in 1949, and the prewar listed zaibatsu-related firms appeared once again at that time. Most of them were non–family firms due to GHQ policy. However, after the opening of the second section of the Stock Exchange in 1961, numerous relatively small and young firms went public until 1964. Family firms comprised the majority (approximately 60 percent) of the IPO firms from 1961 to 1964. Thus, Japanese listed firms provide quite an interesting data set for research on family firms, with regard to the number and share of family firms.

Acknowledgments

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Appendix

In this Appendix, we provide several supporting results for our discussion in this chapter. First, we provide the summary of DID (difference-in-difference) analysis to show the impact of major external shocks to the ownership structure change in Japan. Table A2.1 provides this result. We focus on four major shocks: the Oil shock (1973), the Bubble shock (1990), the Financial Big Bang (2000), and the Lehman shock (2008). We calculate four ownership structures: bank ownership, corporate ownership, individual ownership, and foreign ownership as we saw in Section 2.6.

The column named "Difference" is the average difference between comparison groups (in our case, Groups 1 and 2) before and after the event. The row "Difference" is the average difference between pre- and post-events within each group, and this is what we want to see. We calculate the average value for five years before and after the event for comparison.

Bank ownership increases by about 1.7 percent around the time of the Oil shock (average value of five years after the shock minus the corresponding value before the shock) in Group 1, and this is statistically significant at the 0.1 percent level. The corresponding value for Group 2 increases by about 3.1 percent around the event, and this is also statistically significant at the 0.1 percent level. The DID result shows that the difference between the changes in bank ownership in Groups 1 and 2 is about 1.4 percent and is statistically significant at the 0.1 percent level. Thus, we find that in both groups, bank ownership is increased around the Oil shock, while bank ownership in Group 2 firms increased more rapidly around the event than that in Group 1 firms. This is consistent with Figure 2.7.

Table A2.1 also shows that corporate ownership in both groups increased around the Oil shock, but the DID result in corporate ownership shows no difference between the two groups. This result also supports our findings in Figure 2.8. Individual ownership in both groups decreased around the Oil shock, and this effect for Group 2 is larger than that for Group 1. This is also consistent with the previous section's findings. No major change in foreign ownership took place for the two groups around the Oil shock.

The Bubble shock shows the similar trend to that of the Oil shock. Changes in individual ownership and foreign ownership around the event are the same as the case for the Oil shock. Bank ownership change is similar to the result of the Oil shock, but the impact on bank ownership in Group 1 is larger than that in Group 2. Corporate ownership in Group 1 did not change around the event but in Group 2 increased around the bubble burst.

	Oil Shock (1973)					
	Bank ownership			*Corporate ownership*		
	Group 1	*Group 2*	*Difference*	*Group 1*	*Group 2*	*Difference*
Average value for 5 years before the shock	9.983	6.135	3.848****	16.639	21.955	–5.315****
	[2725]	[3192]	(23.42)	[2725]	[3192]	(9.94)
Average value for 5 years after the shock	11.677	9.247	2.430****	18.654	23.546	–4.892****
	[2925]	[4187]	(13.96)	[2925]	[4187]	(9.66)
Difference	1.694****	3.112****	–1.418****	2.014****	1.591***	0.423
	(9.26)	(19.54)	(5.85)	(3.98)	(3.07)	(0.57)
	Individual ownership			*Foreign ownership*		
	Group 1	*Group 2*	*Difference*	*Group 1*	*Group 2*	*Difference*
Average value for 5 years before the shock	2.544	14.573	–12.029****	1.169	1.156	0.013
	[2725]	[3192]	(42.51)	[2725]	[3192]	(0.08)
Average value for 5 years after the shock	2.025	10.182	–8.157****	1.050	1.019	0.031
	[2925]	[4187]	(36.60)	[2925]	[4187]	(0.22)
Difference	–0.519****	–4.392****	3.873****	–0.119	–0.137	0.018
	(3.85)	(14.91)	(10.90)	(0.78)	(0.99)	(0.09)

	Bubble Shock (1990)					
	Bank ownership			*Corporate ownership*		
	Group 1	*Group 2*	*Difference*	*Group 1*	*Group 2*	*Difference*
Average value for 5 years before the shock	13.257	11.491	1.766****	17.462	22.372	–4.910****
	[2960]	[5859]	(11.62)	[2960]	[5859]	(10.84)
Average value for 5 years after the shock	15.216	13.009	2.207****	16.998	23.359	–6.361****
	[2951]	[6265]	(14.21)	[2951]	[6265]	(14.50)
Difference	1.959****	1.518****	0.441**	–0.464	0.987***	–1.451**
	(11.04)	(12.16)	(2.03)	(0.96)	(2.66)	(2.30)
	Individual ownership			*Foreign ownership*		
	Group 1	*Group 2*	*Difference*	*Group 1*	*Group 2*	*Difference*
Average value for 5 years before the shock	1.208	7.069	–5.861****	1.061	1.048	0.013
	[2960]	[5859]	(31.11)	[2960]	[5859]	(0.10)
Average value for 5 years after the shock	0.957	4.846	–3.889****	0.890	1.146	–0.256**
	[2951]	[6265]	(24.33)	[2951]	[6265]	(2.03)
	–0.250***	–2.223****	1.973****	–0.171	0.098	–0.269
Difference	(2.81)	(13.35)	(8.00)	(1.18)	(0.96)	(1.52)

	Lehman Shock (2008)					
	Bank ownership			*Corporate ownership*		
	Group 1	*Group 2*	*Difference*	*Group 1*	*Group 2*	*Difference*
Average value for 5 years	13.848	11.482	2.366****	15.644	21.099	–5.454****
before the shock	[2499]	[5043]	(12.47)	[2499]	[5043]	(11.48)
Average value for 5 years	12.946	10.773	2.173****	16.072	20.723	–4.651****
after the shock	[2218]	[4350]	(11.60)	[2218]	[4350]	(9.40)
Difference	–0.902****	–0.709****	–0.193	0.428	–0.375	0.803
	(4.13)	(4.57)	(0.72)	(0.79)	(0.93)	(1.17)
	Individual ownership			*Foreign ownership*		
	Group 1	*Group 2*	*Difference*	*Group 1*	*Group 2*	*Difference*
Average value for 5 years	1.006	4.031	–3.025****	3.058	3.613	–0.556***
before the shock	[2499]	[5043]	(19.05)	[2499]	[5043]	(2.99)
Average value for 5 years	1.071	3.713	–2.642****	2.811	3.406	–0.595***
after the shock	[2218]	[4350]	(16.75)	[2218]	[4350]	(3.11)
	0.064	–0.318**	0.383*	–0.247	–0.208	–0.039
Difference	(0.63)	(2.11)	(1.70)	(1.28)	(1.28)	(0.15)
	Financial Big Bang Shock (2000)					
	Bank ownership			*Corporate ownership*		
	Group 1	*Group 2*	*Difference*	*Group 1*	*Group 2*	*Difference*
Average value for 5 years	14.009	12.411	1.598****	16.498	23.026	–6.528****
before the shock	[2882]	[6145]	(10.35)	[2882]	[6145]	(14.65)
Average value for 5 years	14.464	11.908	2.556****	15.617	21.594	–5.977****
after the shock	[2606]	[5348]	(13.32)	[2606]	[5348]	(12.77)
Difference	0.454**	–0.504****	0.958****	–0.880*	–1.432****	0.552
	(2.25)	(3.64)	(3.93)	(1.76)	(3.79)	(0.85)
	Individual ownership			*Foreign ownership*		
	Group 1	*Group 2*	*Difference*	*Group 1*	*Group 2*	*Difference*
Average value for 5 years	0.901	4.291	–3.390****	1.514	1.538	–0.024
before the shock	[2882]	[6145]	(22.14)	[2882]	[6145]	(0.17)
Average value for 5 years	0.946	4.132	–3.186****	2.479	2.809	–0.330*
after the shock	[2606]	[5348]	(20.49)	[2606]	[5348]	(1.87)
Difference	0.044	–0.159	0.204	0.965****	1.271****	–0.306
	(0.52)	(1.09)	(0.93)	(5.54)	(9.90)	(1.38)

The Financial Big Bang shock shows a different pattern from that of the bubble burst. Bank ownership in Group 2 decreased around 2000. Surprisingly, bank ownership in Group 1 increased around the Financial Big Bang event. We suspect that the two newly established trust banks have a critical role for Group 1 firms, and Figure A2.1 supports this. The value of two trust bank ownership in Group 1 firms increased rapidly from 2000 to 2003. Corporate ownership in the both groups decreased around 2000, and this indicates that the Financial Big Bang also affected the Japanese interfirm relationships. Individual ownership in two groups did not show any major change around the 2000. Foreign ownership in the both groups increased around 2000. However, the DID result on foreign ownership indicates no difference between the two groups. This result also supports our findings.

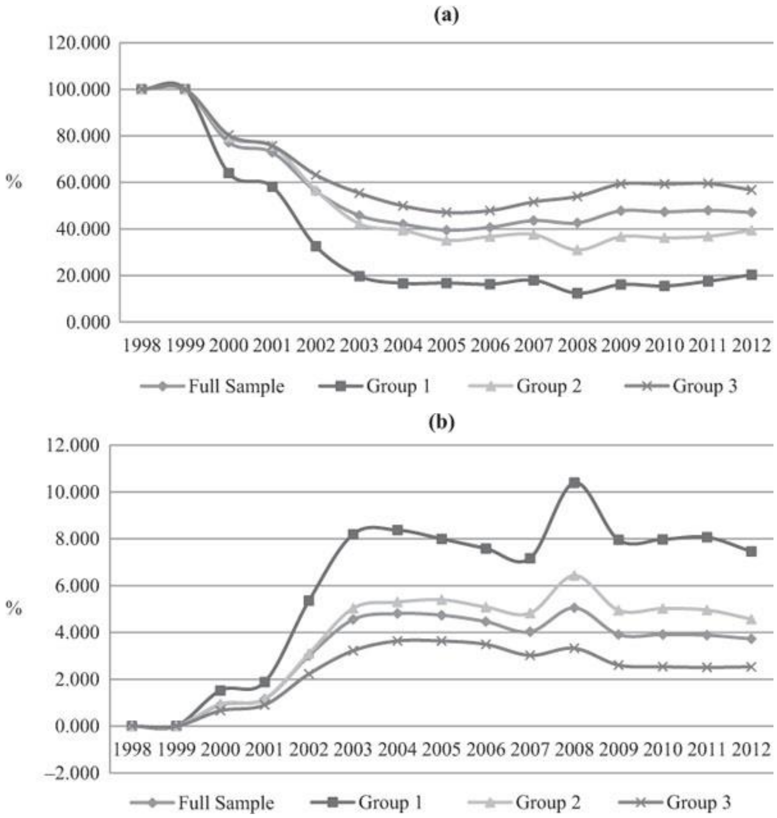

Figure A2.1 Presence of two trust banks: (a) percentage of firms that do not have two trust banks as the large shareholder; (b) two trust bank ownership.

Bank ownership in the both groups decreased around the Lehman shock, but the DID result on bank ownership shows no difference between the two groups. Nothing has changed occurs to the Corporate ownership in the two groups and showed no major change around in 2008. In sum, Table A2.1 strongly supports our findings.

Second, Table A2.2 provides the number of delisted firms from 1981 to 2010. The total number of delisted firms in the 1980s was 54, while that of delisted firms in the 1990s was 271, and that of delisted firms in the 2000s was 1,068. This information supports our discussion on corporate relationships and corporate ownership evolution.

Year	The number of delisted firms
1981	5
1982	13
1983	8
1984	4
1985	7
1986	4
1987	2
1988	2
1989	4
1990	5
Sum of 1980s	54
1991	12
1992	9
1993	9
1994	14
1995	11
1996	19
1997	33
1998	40
1999	53
2000	71
Sum of 1990s	271
2001	91
2002	115
2003	70
2004	103
2005	72
2006	122
2007	148
2008	129
2009	115
2010	103
Sum of 2000s	1068

The main message for the corporate ownership evolution is that Japanese firms had stable corporate ownership until 1990, but the pattern started to change sometime after the bubble burst and drastically changed around 2000 when the government implemented the Financial Big Bang. From 2000 to 2012, corporate relationships show significant changes due to the Financial Big Bang.

Table A2.2 reflects this point well. The number of delisted firms was very low during the 1980s, indicating that the Japanese firm system had a stable environment during this period. The number of delisted firms during the 1990s was five times larger than that of delisted firms during the 1980s. This indicates that the bubble burst shock affected the Japanese firm system's stability. Surprisingly, the number of delisted firms during the 2000s was four times larger than that of delisted firms during the 1990s, and more than 1,000 firms were delisted during the 2000s. This shows that the Financial Big Bang imposed a significant impact on the Japanese firm relationships and stability through the banking sector restructuring.

Third, we show the impact of the newly established two trust bank (The Master Trust Bank of Japan, Ltd and Japan Trustee Services Bank, Ltd) on the ownership structure of Japanese firms in Figure A2.1. The average shareholding of these two trust banks among the largest 10 shareholders was zero until 1999 and has begun to show positive values from 2000 (Financial Big Bang). The positive value increased rapidly from 2000 to 2003 and became stable during the period 2004 to 2012, although there was some fluctuation due to the Lehman shock effect. The average of the whole sample during the period 2003 to 2012 was 4.3 percent; that of Group 1 was 8.1 percent, while that of Group 2 was 5.2 percent and Group 3 was 3.0 percent.

This figure clearly shows that these two trust banks mitigated the impact of the Financial Big Bang on the ownership structure of Japanese firms. The number of major commercial bank is reduced from 17 to 4 due to the Financial Big Bang, and this implies the huge decline of bank ownership as the bank's maximum shareholding is 5 percent due to regulation. As we see in Figure 2.7, this phenomenon does not appear, and Figure A2.1 shows the mitigating effect of the newly established two trust banks. In addition, the moderating effect shows the strength ordering from Group 1 to Group 3, as we expected.

The upper panel of Figure A2.1 also supports our argument. This figure reveals the number of firms that do not have any relationship with these two trust banks as their largest 10 shareholders. The average value of the entire sample during the period 2003 to 2012 was 44.5 percent; while that of Group 1 was 17.0 percent, that of Group 2 was 37.1 percent, and that of Group 3 was 54.0 percent. These results also indicate that these two trust banks have a major role as a large shareholder after the Financial Big Bang in Japan.

Lastly, we provide the information about the industry distribution of foreign ownership. We calculate the average value of foreign ownership during the period 1990–1996 and during the period 1997–2012 by industry. Industry classification follows the two-digit classification. The rank follows the average value during the period 1997 and 2012. See Table A2.3.

Table A2.3 Foreign investors and industry

Industry	*Average (1990–1996)*	*Average (1997–2012)*	*Rank*
Real estate	0.899	5.296	1
Communication service	1.675	4.506	2
Transportation machine	1.595	4.468	3
Electricity	1.948	3.869	4
Chemical	1.745	3.575	5
Service	1.074	3.413	6
Agriculture/natural resource	2.682	3.164	7
Retailing	1.451	3.146	8
General machine	1.207	2.884	9
Other manufacture	0.481	2.876	10
Whole sales	1.797	2.695	11
Steel	0.672	2.155	12
Textile	0.683	2.107	13
Metal	0.459	2.018	14
Food	1.187	1.885	15
Publishing	0.459	1.798	16
Construction	0.469	1.711	17
Transportation	0.245	1.627	18
Nonferrous metals	2.410	1.567	19
Ceramics	0.350	1.440	20
Utilities	0.054	0.998	21
Woods	0.314	0.936	22
Paper pulp	0.117	0.740	23
Total	1.272	3.050	

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