US Barbarians at the Japan Gate: Cross Border Hedge Fund Activism

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Abstract

We investigate causes and consequences of the emerging shareholder hostility in Japan. Steel Partners, an activist hedge fund based in San Francisco, takes big stakes in more than 30 Japanese firms and pushes for strategic changes and sometimes tries to gain control of whole businesses. Meanwhile, Murakami Fund, a fresh Japanese activist fund, targets more than 40 firms. Steel Partner's targets typically have more cash but lower market valuations, whereas Murakami Fund is more likely to target cash-rich firms only. Targets exhibit abnormal returns of about 5% around the announcement of activist investors taking large stakes. And the stock market responses more favorably when targets have more cash and lower market valuations. In addition, the stock market seems to evaluate Steel Partner's track record to create shareholder values. Finally, the targets' long-term stock return does not revert to negative values.

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1. Introduction

On May 18 2007, Steels Partners launched a tender offer bid against Bull-Dog, a sauce maker in Japan. SPJ was seeking to acquire 100% ownership, bidding 1,584 yen for each Bull-Dog share, an 18.56% premium over the average share price in the last one month. Meanwhile, the management came up with a poison pill proposal, one increasingly popular with Japanese companies facing shareholder hostility. And the proposal was scheduled to be voted on by shareholders in the annual meeting on June 24. The activation of poison pill would dilute the ownership of Steel Partners from 10% to about 2.5%. Against the poison pill, Steel Partners sought an injunction in Tokyo District Court to forbid adopting and activating the poison pill defense. On June 24, the takeover defense was approved by 80 per cent of votes. This is a big reason why the Tokyo District Court let it go ahead on June 28. Subsequently, the Tokyo High Court upheld the district court decision, rejecting Steel Partners' appeal on July 9 and furthermore the high court ruled that Steel Partners is an abusive investor. After the Supreme Court's rejection of Steel Partners' appeal on August 7, Bull-Dog issued 3 new shares for each share owned by members other than Steel Partners on August 9.

Steel Partners is an activist hedge fund based in San Francisco. It is run by Warren Lichtenstein. Steel Partners is one of a number of activist hedge funds that take big stakes in companies, push for strategic changes and sometimes try to gain control of whole businesses. It entered Japan in January 2002 by establishing an entity in Tokyo. Steel Partners has invested in over 30 companies in Japan over the past couple of years and it appeared on the list of Bull-Dog's large shareholder in December 2002. In 2003, Steel Partners became famous because it launched TOBs against Sotoh and Yushiro after the two targets rejected its MBO proposal. In 2006 and 2007, Steel Partners proposed or launched TOBs against Sapporo Holdings, Myojo Foods and Tenryu Saw Mfg. But the TOB bids all resulted in unsuccessful and Steel Partners sold the shares and probably earned large profit. This is the primary fact; probably it is the only fact for the Tokyo District Court to reach its

conclusion that Steel Partners is an abusive bidder.

Is Steel Partners an abusive investor? Does Steel Partners' activism destroy or enhance corporate value in Japan? What drives the US barbarians to the Japan gate? The answer to the questions is the key for the policy debate about shareholder activism regulation, especially cross border hedge fund regulation. So far, little is known about cross border hedge fund activism, such as Steel Partners targeting Japanese firms. In this paper, we attempt to fill this gap by exploiting data on events of Steel Partners and Murakami Fund, a fresh Japanese hedge fund to examine the characteristics of firms that hedge funds target and the market reaction to both cross border hedge fund activism and domestic hedge fund activism.

We find that Steel Partner is more likely to target firms that have more cash but lower market valuations, whereas Murakami Fund is more likely to target cash-rich firms only. This finding is quite straightforward. Businesses are deteriorating but managers still retain a large fraction of profits. Conventionally, however, the main bank does not intervene with the management till a firm suffering losses consecutively for two years. Furthermore, cross shareholdings isolate the management from outside threats of hostile takeovers. Indeed, there are no successful hostile takeovers through open market bids in the last decade. As firms are getting matured, the retained profits turn to free cash. This situation is quite similar to that described in Jensen (1986). Such firms are right targets for both cross border hedge funds and domestic hedge funds. Also, this might drive Steel Partners acts more like a corporate raider rather than an activist hedge fund.

Another reason that invites cross border hedge fund activism is the change of ownership structure after the late 1990s. Financial institutions, especially banks had to sell shares that they held. As a result cross shareholding declined and some firms' cross shareholding ownership levels went below fifty percent. This is the right chance for activist hedge funds to put pressure on management for payout of free cash flow. Indeed, we find that both Steel Partners and Murakami Fund tend to target firms with higher foreign holdings and individual holdings. Especially, activists

rely on cooperation from foreign investors, because they invest for money rather than for the value advocated by the court in Japan. Individual shareholders are more likely to free ride hedge fund activism but at least they are different from shareholders chosen by the management.

Targets exhibit abnormal returns of about 5% around the announcement of activist investors taking large stakes. We find that the stock market responses more favorably when a target has not only more cash but also lower market valuation. More importantly, the market reaction is negatively related to cash ratio if a target firm is healthy. This finding strongly suggest that the market understands and expects that activist hedge funds are likely to put pressure on the management to pay free cash to shareholders. If a healthy firm with rich cash is targeted, however, the market reacts adversely.

We also investigate the target companies' log-term stock return, by using the calendar time portfolio approach. Results show that the Jensen's alpha is significantly positive for both hedge funds' targets; especially, it is statistically significant for Steel Partners' targets. This result is not consistent with the market overreaction hypothesis, the unload hypothesis, and the information effect hypothesis. Overall, our data provide a strong support for the free cash flow hypothesis.

Interestingly, the market expects a low premium if foreign investors hold more shares. To push for value improving changes, active hedge funds rely on cooperation from fellow shareholders, such as institutional shareholders (Brav et al., 2006). On the other hand, the dispersed individual shareholders are more likely to hold out unless the activist pays a large premium. In Japan, cross border activists or domestic activist funds rely on foreign investors, because foreign investors are somewhat institutional and they invest for shareholder value. If the foreign investors own more shares of a target firm, the activist is more likely to succeed and thus requires less gain. As a result, the dispersed individual shareholders ex-post expected premium is lower. This effect is similar to the effect of shares held by a large shareholder in Schleifer and Vishny (1986). If the large shareholder owns a large fraction of shares, the individual shareholders expect a lower premium.

We find that the market responds more favorably if a target firm is more leveraged. It might suggest that shareholders gain more if target firms with more debt, because shareholders gain at the expense of the creditors. An alternative explanation is that banks are more likely to expropriate value from borrowing firms in Japan and an active hedge fund would force the management to change over-reliance on bank debt financial strategy to improve corporate value. Indeed, Weinstein and Yafeh (1998) find that the main bank imposes its interests to the borrowing firms.

We also find that the stock market reacts more favorably to a Steel Partners event. Steel Partners is veteran activist hedge fund. It has targeted many US firms. Since 2002 it has targeted more than 30 Japanese firms. Probably, it is one of the most confrontational activist funds not only in the United States but also in Japan. And, the market knows its reputation. Since the late 1990s, foreign private equity funds have played important roles in corporate turnarounds. Ripplewood Holdings, an American private equity group is the first that bought Long Term Credit Bank (LTCB) in 2000, which collapsed in 1998 and then was nationalized[1]. The bank was renamed Shinsei or ''new birth'' after the sale and went public again. This is a success story in Japan for US investment funds. The market knows the comparative advantages of foreign investment funds.

Recently, there is increasing literature on hedge fund activism in UK and the Unites States. Brav, Jiang, Partnoy and Thomas (2006) find that activist hedge funds target undervalued firms and propose strategic, operational, and financial changes, using a hand–collected comprehensive database on hedge fund activism. Also they find that most activists are non-hostile and attain success or partial success in two-thirds of the cases and hedge funds seldom seek control of target companies. After activism, there is moderate improvement in operational performances of target firms and considerably higher CEO turnover. Contrarily, Klein and Zur (2006) find that hedge funds

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[1] For details, see Tett (2003) which tells the history of one specific bank that epitomizes Japan's economic problems in the late 1990s —the Long Term Credit Bank of Japan.

extract cash through increases in debt capacity and dividends from profitable and healthy target firms with above–average cash holdings and there are no accounting performance improvements after the first purchase. But they omit all non-confrontational hedge fund activism, as pointed out in Brav et al. (2006). Bradley, Brav, Goldstein and Jiang (2006) analyze the impact of hedge fund activism on discounted closed-end fund. Also, Bratton (2006) and Kahan and Rock (2006) provide useful evidence on activist intervention in the United States. For UK, Becht, Franks, Mayer and Rossi (2006) find that a UK activist fund significantly influences firm strategies in asset sales, divestment, capital expenditure and payout policy as well as major CEO or chairman replacement.

Limited to our knowledge, our paper is the first that provides evidence on the United States' cross border hedge fund activism in Japan. Similar to Brav et al. (2006) and Becht et al. (2006), Steel Partners is more likely to target undervalued Japanese firms. Especially, the target firms are with above-average cash holdings. The market reacts favorably to its purchase. Steel Partners is somewhat more confrontational than the US hedge funds, however. Two reasons are responsible for this difference. First, the situation in the late 1990s Japan is better for Steel Partners to revive the 1980s US leveraged restructurings. Also, isolated by cross shareholdings, the management tends to resist activists' proposal rather than collaborate and eventually the activist hedge funds tend to confront the management.

The rest of the paper is organized as follows. In the next section, we document the emerging shareholder hostility in Japan, by focusing on two representative active shareholders, Steel Partners and Murakami fund. Target firms' characteristics, as described in Section 3, exhibit systematic differences between the target firms and randomly selected non-target industrial peers. In section 4, we investigate the reaction of stock price when an active investor filing large shareholding. Finally, Section 5 concludes.

2. The emerging shareholder hostility in Japan

Till the early 1990s, it had been a striking stylized fact that corporate governance structure in Japan provides a flexible, more effective private alternative to external takeover pressures and bankruptcy. As a mechanism for mutual commitment and risk sharing, the cross holding ownership structure creates greater possibilities to resolve managerial myopic problems caused by the threat of external takeovers. Berglof and Perotti (1994) and Osano(1996) rationalized the reciprocal allocation of control rights supports cooperation and mutual monitoring among managers through a coalition-enforced threat of removal from control and in financial distress, the governance mode shifts to hierarchical enforcement under main bank leadership. External threats and proxy fights were extremely rare and didn't have much chance to succeed, because anti-takeover cross shareholding was high as 70% or more (Osano 1996).

Empirically, Kang and Shivdasani (1997) show that the frequency of asset downsizing and layoffs in Japanese firms increased with the ownership by the firm's main bank and other block holders. Block shareholdings also increased the probability of management turnover, outside director removals and outside director additions. By contrast, the US restructurings were responses to frequent external takeover pressures, while such pressures were absent in Japan. At the same time, bankruptcy resolutions were rarely employed for large Japanese firms until the early the 1990s. Most financially distressed large firms in Japan successfully restructured troubled debt privately with main bank intervention, rather than through formal bankruptcy.

It is worth noting that in the late 1980s Japanese firms were less likely to downsize, and layoffs affect a smaller fraction of their workforce, compared to US firms with a similar decline in performance (Kang and Shivdasani, 1997). This reflects the slow response to declining performances in Japan, because the main bank intervenes with the management only if a firm suffering loss consecutively for two years. Similar to the U.S. corporate governance structures before the 1980s, however, Japanese corporations had been loyal to the corporations, not to the shareholder (Holmstrom and Kaplan 2001). Researchers were looking at Japanese style of corporate

governance because Japan had a growing economy and agency problems between shareholders and managers were less severe.

As many Japanese firms getting matured since the 1990s, the main bank system turns to be dysfunctional after the mid 1990s. Hoshi and Kashyap (2004) show how the current dysfunctional Japanese banking system misallocates funds by keeping many insolvent firms in business. Similarly, Peek and Rosengren (2005) examine the misallocation of credit in Japan associated with the perverse incentives of banks to provide additional credit to the weakest firms. As a result, quite a few Japanese banks defaulted and then were liquidated or nationalized in the late 1990s. Also, Japan's debt restructuring practice after the mid-1990s suggests that bank lenders are less likely to rescue failing borrowers than were they before the early 1990s (Xu 2007). Rather, the recent Japanese firms' choices between bankruptcy and private workouts are similar to the US practice during the recession of the 1980s (Xu 2007).

Facing economic difficulties, Japan has devoted efforts to reform its corporate governance. Especially, Japan attempts to move toward the U.S. model in the use of equity-based compensation, in the ability of repurchase of one's own shares (Kato et al. 2005 and Uchida 2006). Now, the Japanese corporate governance system is partially following the same path, as the style of U.S. corporate governance has reinvented itself since the mid-1980s (Holmstrom and Kaplan 2001)[2]. At the same time, disappointed by poor stock market performance in last decade, shareholder hostility is emerging. Here, the term "shareholder hostility" means the hybrid of hostile takeovers and shareholder activism. There are several hostile takeover attempts through open market. Meanwhile, several firms were bought out by the management. Shareholder hostility, in particular, hostile takeover attempts, however, are not successful. This is because cross shareholdings are still

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[2] It demonstrates a significant change in Japan–US comparative corporate governance: similarities dominate over differences in comparing the US bankruptcy wave of the 1980s and the Japanese bankruptcy wave of the late 1990s. By contrast, earlier studies have found many differences in comparing a downturn of the US economy and an upturn of the Japanese economy in the 1980s.

as high as 40% on average, although have been declining from 70% since the late 1990s. Virtually, active shareholders did not frequently launch hostile tender offer bids until 2006. In a typical case, an active shareholder acquires 5% to 10% of a target firm's outstanding stocks and then pressures the management for enhancing shareholder value. The most frequent shareholder proposal is concerning cash holding and payout policy. In response to hostile pressure, the target firms decide to pay out cash flows, as did the 1980's hostile target firms in US. In some cases, substantial increases in dividends and stock repurchasing are followed subsequently. And some target firms were finally bought out by parent company or in M&A.

As the Japanese corporate governance system moving to the U.S. model, in many cases, the U.S. investors directly engage in shareholder activism as well as corporate restructurings. On December 19, 2003, two TOBs broke down the peaceful days of Japanese managers. An active investment fund, Steel Partners Japan (hereafter SPJ) launched tender offer bids against two listed companies, Sotoh Corporation and Yushiro Chemical. Soon, the management of Japanese firms was shocked and panicked. This happening epitomizes one of the most important changes of the Japanese style of corporate governance: U.S. barbarians are at the Japan gate. After that, hostile pressure has been one of the hottest topics of corporate governance in Japan.

SPJ is established in January 2002 as an entity in Japan by Steel Partners. Steel Partners is one of a number of activist hedge funds that take big stakes in companies, push for strategic changes and sometimes try to gain control of whole businesses in the United States. SPJ was holding 9.08% of Sotoh's shares on August 6, 2002. Sotoh is the first Japanese target of Steel Partners. On November 11, 2002, it filed for large shareholding of 5.1% of Yushiro Chemical's share. In Japan, it is required to file large shareholding (*Tairyo Hoyu Hokokusho*, in Japanese) if an investor owns 5 percent or more of a listed firm's outstanding stocks for the first time. An individual or a non-financial corporate investor should file the large shareholding within 5 calendar days. Soon after filing for large shareholding, SPJ pressured the management for payout of cash holding.

Indeed, the Sotoh's cash holding in 2002 was more than twice of the annual sales. The managers were slow to respond, partly because they were confused and they had never experienced hostile pressure. The same were the Yushiro's managers.

The slow response of the two targets finally triggered hostile TOB. Though TOBs did not succeed, Yushiro agreed an increase in annual dividends per share to 200 yen from 14 yen. Meanwhile, Sotoh firstly contested management buyout against the hostile TOB but finally agreed to pay dividends per share of 200 yen. Prior to the TOB, it paid only 14 yen per share. SPJ has been targeting more than 36 listed companies in Japan. Many paid out in response to SPJ's hostile pressure. In addition, many firms that were not targeted paid out cash in response to hostile pressure to make themselves less attractive targets. Recently, Steel Partners launched the tender offer Oct. 27 to buy Myojo shares at 700 yen each. Myojo, Japan's fourth-largest instant noodle maker, came out against the offer and decided to conclude a capital and business tieup agreement with Nissin, the biggest instant noodle producer. Steel Partners is already Myojo's top shareholder with a stake of around 23 percent. But the bid for Myojo appeared doomed[3].

Murakami Fund is another well known active investor. Formally, the fund is managed by MAC. More popularly it is called Murakami Fund (Murakami Fando in Japanese), because it is led by Mr. Murakami, a former officer of the Ministry of Industry, Economy and Trade. In 2000, it launched the first-ever hostile takeover against Shoei Company, a firm that was listed on the 2nd section of Tokyo Stock Exchange. The TOB did not succeed. In 2002, Mr. Murakami pressured the management of Tokyo Style, a new target to repurchase five hundred million US dollars of share. Similarly, the managers of Tokyo Style were slow to respond to the pressure. Finally, Mr. Murakami submitted the issues for inclusion in the proxy materials of general meeting at the end of 2003. Mr. Murakami lost in the proxy fight but won an increase in cash dividends and repurchase of

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[3] See http://search.japantimes.co.jp/cgi-bin/nb20061128a2.html

share.

In 2005, Murakami Fund pressured Hanshin Electric Railway to sell its professional baseball team to the public. Murakami Fund is holding about 40% of Hanshin Electric Railway's outstanding share. After a series of hostile takeovers and voices of active shareholders, Murakami became a household name in Japan. In 2006, Mr. Murakami was arrested for insider trading and Murakami Fund was liquidated. Murakami Fund had targeted more than 48 listed companies for enhancing shareholder value. In 2007, the court ruled his guilty.

Facing the U.S. barbarians at the gate, many are voicing the opinion that the greedy investors of Wall Street come to raid innocent Japanese corporations. Also, it is criticized that shareholder activism is nothing more than redistribution of value from employees to shareholders. There are few empirical studies on hostile pressure, however. In this paper, we examine what invites US barbarians at the Japan Gate and how the market reacts to the cross border hedge fund activism as well as domestic shareholder activism.

3. What firms are targeted?

Now, we collect data on the target firms of SPJ and Murakami Fund. Limited to our knowledge, there are no other more popular active investors in Japan. A target firm is identified by the reference to "Murakami Fund", "MAC", "Steel Partners" and other keywords concerning Murakami Fund and SPJ of Edinet's large shareholding filings and *Nikkei Shinbun* between March 1, 2001 and January 31, 2006. Large shareholding filings are publicly available in Edinet and some cases are reported in *Nikkei Shinbun*. For Murakami Fund, sometimes shareholdings less than 5 percent of listed firms for the first time are also reported in *Nikkei Shinbun*. Large shareholding filings are equivalent to 13 D filings. Anyone is required to file a large shareholding within 5 days after acquiring more than five percent of any publicly-traded equity class. In the filing, the investor(s) report the name(s), number and type of shares purchased, the percentage of equity owned, the trades

in last two months, and the purpose of transaction. Also, the investor should note whether the equity owned is pledged as collateral.

We examined 89 targets from large shareholding filing database in Electronic Disclosure for Investors NETWORK (hereafter EDINET) and from *Nikkei Shinbun*. Excluding targets which financial and sufficient stock price data is unavailable, the sample consists of 67 targets. One corporation was targeted two times by Murakami Fund. And one corporation was firstly targeted by Mirakami Fund and later was targeted by SPJ. Thus, SPJ's targets and Murakami targets are different corporations. The SPJ's sample consists of 30 corporations and Murakami's target sample consists of 37 observations. For each large shareholding filing, we also check whether it is reported in *Nikkei Shinbun* prior to the filing. For each target, we randomly select 4 peers in the same two-digit industry. In determining targets, many factors might be involved. Matching on firm size or matching on performance seems difficult for us to characterize many features of targets[4].

As Jensen (1986) argues, free cash flow theory is only one of approximately to explain takeovers. Payouts of free cash flow to shareholders reduce the resources under the managers' control, thereby reducing managers' power, because managers have incentives to build empire at the expense of shareholders. As pointed out by Jensen (1986), payouts to shareholders threaten the interests of managers, employees and the resulting resistance means retrenchments only get made in a crisis such like financial distress or bankruptcy. Shareholder hostility generates crises that cause such changes. Virtually, managers are panicked by the emergence of shareholder hostility. As shareholder hostility emerging, many are voicing the opinion that shareholder hostility is driven by investor greed; the green mailers would destroy corporate value and would hurt employees and

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[4] In Klein and Zur (2006) and Brav et al. (2006), control firms are matched on size and book-to-market in the same SIC 2-digit industry. But the size (book-to-market) matching criterion is dropped in describing target firms' size (book-to-market) in Brav et al. (2006).

other stakeholders' interests. However, Homlstrom and Kaplan (2001) explain that today it is widely accepted in the USA that efficiency gains, rather than redistribution from stakeholders to shareholders explains why hostile takeovers appeared in the 1980s. In the emerging shareholder hostility, the most frequent shareholder proposal type is concerning cash holding and payout policy in Japan. In response, target firms' reactions involve repurchase of share and substantial increases in cash dividends. This phenomenon is quite similar to that described in Jensen (1986). In this paper, we examine free cash flow hypothesis. If a firm with more cash but lack of investment opportunities, the manager is more likely to waste such cash to build empire. Here, we use market-to-book ratio for proxy of investment opportunities. Cash is measured using the ratio of cash to assets.

If the managers are strongly isolated from hostile pressure by cross shareholding, raiders and takeovers have no chance to succeed in TOBs or proxy fights, that is potentially available to active shareholders. To capture the extent to which a firm is isolated from hostile takeovers, we use a number of variables of ownership structure such as financial institutional shareholdings, non-financial corporate shareholdings, individual shareholdings, foreign investors' shareholdings and executive shareholdings. Data source is Nikkei Financial Quest.

Table 1, 2 indicate summary statistics of target firms and the randomly selected industrial peers for SPJ and Murakami Fund respectively. As shown, target firms have higher ratio of cash to assets than the randomly selected industrial peers. The differences are significant at the 1% level. In addition, we split cash holdings to excess cash and normal cash. A measure of excess cash is the ratio of cash to assets if Q (the market-to-book) is less than one. Otherwise, the ratio of cash to assets is normal cash. Also, we substitute adjusted excess cash for excess cash. Adjusted excess cash is a measure for excess cash adjusted by the industrial median. Here, adjusted excess cash is equal to the ratio of cash to assets less the median ratio of cash to assets in the same two-digit industry if cash to assets ratio is above the industrial median and Q is less than one, otherwise 0. Adjusted normal cash is the ratio of cash to assets less adjusted excess cash.

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Consistent with free cash hypothesis, SPJ's targets have more excess cash than the control firms. Similarly, Murakami's targets have higher excess cash than do the control firms. It is not the case for normal cash. Both the US Barbarian and the domestic activist fund target firms that have rich excess cash. Also, Table 1, 2 display that targets have lower market-to-book than the control firms. Especially, more than fifty percent target firms have market-to-book below one, regardless of Steel Partners' targets or Murakami's targets. This is consistent with Jensen's view that shareholder hostility is ultimately caused by the failure in the internal governance mechanism of Japanese corporations. Jensen has shown similar evidence on the failure in the internal governance mechanism of US corporations in the 1980s. Moreover, the differences for adjusted excess cash are also significant at the 1% level between targets and the control firms for both SPJ and Murakami fund. One significant difference is that Murakami Fund targets firms with more adjusted excess cash as well as firms with more adjusted normal cash. By contrast, SPJ only targets corporations with higher ratio of cash to assets than the median cash to assets ratio in the corresponding SIC two-digit industry and with market-to-book below one. As a veteran active investor, SPJ targets Japanese corporations not only with lower market valuation but also with cash holdings more than the industrial median. Perhaps, SPJ has learned to pay more attentions in selecting targets.

Table 1, 2 also indicate that targets are less leveraged than the control firms for both SPJ and Murakami fund. The differences are significant at the 1% level. This suggests that debt is hard constraint for managers. We also find that targets have lower corporate ownership and higher foreign ownership than the control firms. Only SPJ is more likely to target firms with more financial institutional ownership. In the 1980s, financial institutional ownership and corporate ownership are two typical cross shareholdings. Since the late 1990s, financial institutional shareholdings have declined rapidly. But corporate shareholdings still work as cross shareholdings. Our findings suggest that both the US barbarian and the domestic activist are aware of the roles of corporate shareholdings. The higher is corporate ownership; it is more likely to isolates managers

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from hostile pressures. Foreign investors are more likely to fight against managers for shareholder value and thus are more likely to align with activist funds. But there is not a significant difference in individual investors' ownership between targets and the control firms. Individual investors may act as free riders and recently individual investors vote for managers when firms adopt poison pills against activist funds. Finally, targets are larger than control firms.

Now, we perform logit regression to examine the factors associated with the likelihood of a corporation being targeted by SPJ, Murakami Fund respectively. In addition to the targets of an active investor, we assemble financial data for randomly selected control firms in the same two-digit industry. The financial data is the latest annual data prior to the fiscal year when a corporation was targeted. Dependent variable is equal to 1 for a target and is equal to 0 for a non-target industrial peer. If a corporation has excess cash, the extent to which that hostile pressure potentially can improve the market valuation depends on the current market valuation. Here, we use Excess Cash(1-Q) as a proxy for the extent to which that hostile pressure potentially can improve the market valuation. Consistent with free cash hypothesis, Excess Cash (1-Q) is positively related to the likelihood of a firm being targeted by activists. As shown in Table 3, the coefficient is significant at the 5% level. By contrast, Normal Cash is not significantly related at the 10% level. Also, Q (the market-to-book) is negatively related to the likelihood of a firm being targeted by SPJ. In addition, SPJ is more likely to target a firm with lower corporate ownership. But financial institutional ownership does not have a significant effect. A firm with higher individual ownership and foreign investors' ownership are more likely to be targeted by SPJ, when they are included in independent variables instead of financial institutional ownership and corporate ownership. This indicates that cross shareholding such as corporate ownership still isolates Japanese managers from hostile pressure. Meanwhile, the stake of managers is negatively related to the likelihood of a firm being targeted by SPJ. Also, SPJ is prone to target less leveraged firms. This is consistent with the view that debt hardly constrained managers. Finally, firm size is not a significant factor associated

with the likelihood of a firm being targeted by SPJ.

Table 4 exhibits a significant difference from Table 3. In table 4, Excess Cash (1-Q) is not significantly related to the likelihood of a firm being targeted by Murakami Fund. Rather, Murakami fund seems more likely to target firms with more normal cash. The results remain similar when we use industry-adjusted excess cash and industry-adjusted normal cash. Neither Q (the market-to-book) nor leverage is significantly related to the likelihood of a firm being targeted by Murakami Fund. Similarly, Murakami Fund is more likely to target a firm with lower corporate ownership. Also, financial institutional ownership does not have a significant effect. Firms with higher individual ownership are more likely to be targeted by Murakami Fund, when it is included in independent variables together with foreign investors' ownership instead of financial institutional ownership and corporate ownership. Foreign investors' ownership has a positive coefficient but it is significant. Meanwhile, the stake of managers has a negative coefficient but it is not significantly related to the likelihood of a firm being targeted by Murakami Fund. Finally, Murakami Fund is prone to target relatively large firms.

The results of logit regression suggest significant differences between Murakami's investment strategy and SPJ's investment strategy in selecting targets: Murakami Fund targets cash-rich corporations rather than excess-cash-rich corporations, whereas SPJ only targets undervalued corporations with excess cash. The differences might reflect the difference in track records between SPJ, a veteran activist hedge fund, and Murakami Fund, a newcomer. Nevertheless, more than fifty percent of Murakami's targets have market-to-book below one. Our findings are similar to Brav et al. (2006) and Becht et al. (2006) that activists target undervalued firms. Especially, Steel Partners targets undervalued firms with above-average cash holdings. In section 4, we will mention that the stock market responses more favorably to the announcement that a firm is targeted by SPJ than to the announcement that a firm is targeted by Murakami Fund.

4. The impact of excess cash on stock prices when hostile pressure appearing

If shareholder hostility mitigates free cash flow problems and results in increased shareholder value, the stock market should favorably response to the announcement that a firm is targeted by an active investment fund. Using a standard event study methodology, we examine the stock price response to the announcement of large shareholding filings by MAC and SPJ. We define the announcement date (date 0) as the earlier day of the large shareholding filing day and the press news release day.[5] We estimate the market model parameters over the period beginning date -270 and ending date -21 (estimation period). Stock price data are obtained from Nikkei NEEDS Portfolio Master. In 25 observations, stock price data are missing for at least one day during the estimation period. This is attributable to the fact that our sample includes small caps. We delete the missing day and after for market model estimation of these observations. The return on the Tokyo Stock Exchange (TSE) index (TOPIX) is used as the market return.

We report three cumulative abnormal returns (CARs): 2-day CAR over the period from date -1 to date 0 (CAR(-1,0)); 3-day CAR from date -1 to date +1 (CAR(-1,+1)); and finally 5-day CAR from date -2 to date +2 (CAR(-2,+2)). Panel A of Table 1 shows that the mean (median) 2-day CAR is 4.6% (2.7%); the mean and median are significant at the 1% level. The 3-day and 5-day CARs are also positive and significant at the 1% level.

As mentioned, some observations include missing data during the estimation period. This fact may earn biased beta (Scholes and Williams, 1977). That is why we also conduct event study using Scholes and Williams's beta. Panel A of Table 5 shows that the mean (median) 2-day CAR using Scholes and Williams' beta is 4.4% (2.6%); the mean and median are significantly different from zero at the 1% level. The 3-day and 5-day CARs are also positive and significant at the 1% level.[6]

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[5] We also conducted an event study that defines the announcement date as the next day of the large shareholdings filing. This definition did not qualitatively change the results.
[6] Brown and Warner (1985) note that an increase in variance around the announcement date may lead to false rejection of the null hypothesis. To account for potential variance shifts over the announcement period, we also calculate Rosenstein and Warner's (1985) t_2 statistic. Results (not reported) show that the all mean

The entire sample includes announcements that a single firm is secondly targeted by an active investment fund: Inaba Denki Sangyo was targeted by SPJ on February 2005, following on January 2004 (targeted by MAC); Myojo Foods was targeted by MAC on October 2004, following on November 2003 (targeted by SPJ). The stock market might predict that the marginal effect on shareholder value of second attempts is lower than that of first ones. Panel B of Table 5 reports event study results when excluding the second attempts. The reported CARs are almost identical to those for the entire sample. The mean (median) 2-day CAR (computed by the standard beta) is 4.7% (2.9%). Also, the means and medians of 3-day and 5-day CARs are all positive and significant at the 1% level, regardless of the beta computation methodology. Overall, the stock market favorably reacts to the announcements that a firm is targeted by an active hedge fund; this evidence is consistent with the view that shareholder hostility mitigates free cash flow problems and creates a shareholder value. Table 6 and table 7 display abnormal returns by excess cash and by funds. The market reacts more favorably if a firm has more excess cash but the differences of means are not significant. However, the difference of mean CAR (-1, +1) between the sub-sample of firms with adjusted excess cash and the sub-sample with no adjusted excess cash is significant at the 5% or 10% level. Similarly, the mean CAR (-1, +1) of SPJ target firms is significantly higher than that of MAC target firms. This finding suggests that the stock market appreciates SPJ's activism more because SPJ targets companies that have excess cash.

If the positive stock price reaction is attributable to the fact that active investment funds force the manager to pay out free cash flow, CARs would be positively related to the level of target firms' free cash flow. We conduct regression analyses of the 5-day CAR against the free cash flow variables. We also include Normal Cash Q to investigate whether normal and excess cash flows have a different impact on the stock price reaction. For testing the impact of investment opportunity itself on the stock price reaction, we include Q < 1 dummy that is equal to 1 if Q <1 and otherwise

CARs are positive and significant at the 1% level.

0; the variable is predicted to be positively associated with the CAR. As mentioned, the mean CAR of SPJ target firms is significantly higher than that of MAC's target firms. We include SPJ dummy that takes a value of one in cases of SPJ's targets, otherwise 0 to control for the difference in the acquiring funds' reputation.

We include leverage in the independent variable. The free cash flow problem would be more evident for low leveraged firms (Jensen, 1986). On the other hand, leverage can be a proxy for bank-firm relationship. Weinstein and Yafeh (1998) find that the main banks imposes its interests to a firm and thus prevents the firm investing in profitable but risky projects, because banks are more risk averse than shareholders. Consequentially, it results in lower growth for firms with strong bank ties. If the main bank gains more from a high levered firm, activists may push for change in bank-firm relationship to prevent the firm from banks' expropriation. If the hard constraint effect of debt dominates, abnormal return is predicted to be negatively associated with leverage. If the firm is managed to maximize the banks' interests, the market reacts more favorably when a high leveraged firm is targeted.

Finally, we add two ownership variables: Foreign investors' ownership; Active investor's ownership. Foreign shareholders tend to care more about shareholder wealth than cross shareholders.[7] Thus an active hedge fund can more effectively pressure the manager to pay out free cash flow as the foreign ownership increases. To push for value improving changes, cross border activists or domestic activist funds rely on foreign investors, similar to reliance on cooperation from institutional shareholders in Brav et al. (2006). On the other hand, the dispersed individual shareholders are more likely to hold out unless the activist pays a large premium. If the foreign investors own more shares of a target firm, the activist is more likely to succeed and thus requires less gain. As a result, the dispersed individual shareholders ex-post expected premium is lower. This

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[7] Uchida (2006) finds that Japanese independent firms (not keiretsu-affiliated firms) are more likely to adopt stock options because they are owned more by foreign investors.

effect is similar to the effect of shares held by a large shareholder in Schleifer and Vishny (1988). If the large shareholder owns a large fraction of shares, the individual shareholders expect a lower premium. Similarly, active investors can more strongly pressure the management as they own the firm more; thus, we expect a negative relation between the CAR and Active investors' ownership.

Results are shown in Table 8. The left-hand (right-hand) two columns show results of CAR computed by the standard beta (Scholes and Williams' beta). It shows that the Excess Cash (1-Q) coefficient is about 0.42; it is significantly different from zero at the 1% level. Also, Adjusted Excess Cash (1-Q) has a positive and statistically significant coefficient. This result provides a support for the view that shareholder hostility generates a positive abnormal return by mitigating free cash flow problems. On marked contrast, Normal Cash has a negative coefficient and it is significant at the 10 % level in all specifications; normal cash flow does have a negative impact on the stock price response. These results suggest that the cash flow above the normal level is linked to the stork price increase. The coefficients of Q<1 dummy is negative and not significant in all models.

SPJ dummy has a positive coefficient in all estimations; the stock market seems to evaluate more the SPJ's ability (or cross boarder hedge fund activism) to create a shareholder value. Indeed, we have shown that Murakami Fund targets cash-rich corporations rather than excess-cash-rich corporations, whereas SPJ only targets corporations with excess cash. The differences might reflect the difference in track records between SPJ, a veteran activist hedge fund, and Murakami Fund, a newcomer. Leverage has a positive and statistically significant coefficient in all models. Of the ownership structure variables, foreign investors' ownership has a significantly negative coefficient in all models as predicted. However, active investor's ownership has a positive coefficient. But it is not significant at the 10% level. Excluding firms that are targeted secondly, the results remain the same and they are not reported.

Brav et al. (2006) analyze the relation between abnormal return and type of activism. They report

that activism related to the sale of the target or related to pushing for business strategy changes generates a significant abnormal return. If activism is classified as "hostile" and "friendly", they find that the market reacts more favorably to a hostile event. Overall, the relation between abnormal return and target firm characteristics is weak. Nonetheless, the abnormal return is lower if a target firm pays higher dividends. Our regressions display strong relation between abnormal return and target firm characteristics. Especially, hostile pressure against an undervalued firm with above-average cash holding generates a high abnormal return. Also, R-squared is as high as 0.3.

5. Long-term performance

The former section showed that the Japanese stock market favorably responses to the announcement that a firm is targeted by an active hedge fund. However, one can argue that the stock market exhibits an overreaction (market overreaction hypothesis); the hypothesis predicts that the stock price declines in the long-run. Another possible criticism to the event study result is that stock prices temporally increased around the announcement day due to buying presser from hedge funds; hedge funds can make large profits by selling off the acquired shares immediately after the substantial increase in stock prices, but they do not add value (unload hypothesis). This story also predicts that the stock return reverts to zero or negative values in the long run.

To test the possibility, we investigate the long-term stock return of target companies by using calendar time portfolio regressions. Target firms are incorporated in the portfolio (target portfolio) during 12 months from the month after being targeted. We use one-factor, Fama-French three factor, momentum, and four-factor (Carhart, 1997) models to compute the Jensen's alpha. The dependent variable is the monthly value-weighted target portfolio return less secured call money rate. The benchmark returns are obtained from Kubota and Takehara (2007) and Takehara (2007).[8]

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[8] Using all stocks listed on the first and second sections of Tokyo Stock Exchange (denoted by TSE stocks), Kubota and Takehara (2007) and Takehara (2007) compute the monthly benchmark returns by the following method. The market excess return is the difference between the value weighted return of TSE stocks and the

Tables 9 and 10 show results for the Steel Partner's and Murakami fund's target portfolio, respectively. The Steel Partner's result (Table 9) finds that the constant (Jensen's alpha) has a positive and statistically significant coefficient in all models; it suggests that shareholders of SPJ target companies gained positive risk adjusted returns during a year following the large shareholding filing. This result is consistent with the view that SPJ creates shareholder value by mitigating the target companies' free cash flow problem. Also, MAC's result (Table 10) shows that the Jensen's alpha has a positive coefficient in the all models; it is statistically significant in the one-factor and momentum models. Importantly, the long-run stock return does not revert to negative values for the both hedge funds' targets. As with Becht et al. (2006) and Brav et al. (2006), our data support neither the market overreaction hypothesis nor the unload hypothesis.

There is another potential interpretation regarding the positive stock price response around the large shareholding filing day. As with our results for SPJ (Table 3), Brav et al. find that hedge fund activists tend to target low Q companies. That is why hedge funds' large shareholdings are likely to send information that the target company is undervalued to the market. The information effect can raise target companies' share price even if hedge funds do not add value. Becht et al. and Brav et al. find that the HML factor has a significantly positive impact on the long-term return of their target portfolio. Likewise, our calendar time portfolio regression shows that the HML factor has a positive and significant coefficient for the MAC target portfolio (Table 10); this result suggests that MAC makes profits at least partly from value stocks. However, the evidence shown in Table 4 does not suggest that MAC tends to target value stocks (Q does not have a significant coefficient). Looking

secured call money rate. The SMB factor is computed by taking the difference between the value weighted return of large-cap stocks (stocks that have market capitalization greater than the TSE first section's median) and that of small-cap stocks (stocks that have market capitalization smaller than the TSE first section's median). The TSE stocks are independently sorted by their book-to-market ratio. The top (bottom) 30% stocks are defined as high (low) book-to-market ratio stocks. The HML factor is calculated by taking the difference in the value weighted return between the two (large- and small-caps) high book-to-market portfolios and the two low book-to-market portfolios. Finally, the TSE stocks are independently sorted by the past 36-month return (exclude the closest month). The top (bottom) 30% stocks are defined as the winner (loser). The momentum factor is calculated by taking the difference in the value weighted returns between the two winner portfolios and the two loser portfolios.

at the SPJ result, Table 9 finds that the HML factor does not have a significant coefficient; Steel Partners seems not to make substantial gains from value stocks. These findings do not provide a strong support for the idea that the short-term stock response is induced by the information effect. Overall, the analysis supports the view that hedge fund activism (especially the cross boarder hedge fund activism) creates shareholder value in Japan.

Finally, it would be worth noting that the momentum factor has a negative coefficient in all models; it is statistically significant in some models. This result suggests that the contrarian strategy produces excess returns rather than the momentum strategy. This finding is consistent with the findings of recent studies of Japanese stock returns (Chou et al., 2007; Takehara, 2007). Becht et al. (2006) also presents a similar result.

6. Conclusions

In the 1980s, businesspeople, economists and policymakers were looking to the German and Japanese styles of corporate governance, a bank-centered or stakeholder-oriented system. This is because the U.S. economy was stagnant while the German and Japanese economies were booming. The current dysfunctional Japanese banking system seems less effective to provide incentives for firms to restructure even in the presence of a crisis, however. This implies that Japan and German-style corporate governance, a bank-centered system, does not work well for moving capital or forcing itself after the 1970s. As a response, Japan has reformed its corporate governance structure and bankruptcy system after the late 1990s.

Despite numerous reforms in corporate governance, the presence of quite a few low-valued firms with above-average cash holdings invites US barbarians—cross border hedge fund activism at the Japan gate. Targets firms got panicked and usually they agree a large increase in annual dividends per share right after a threat of TOB or a proxy fight. Now, many are voicing that shareholder hostility may destroy corporate value and redistribute interests of stakeholders to

shareholders. In this paper, however, our findings suggest that the combination of high cash holding and poor profitable investment opportunities invites shareholder hostility. Therefore, potentially it is more likely for hostile shareholders to create corporate value rather than to destroy corporate value. Consistent with free cash flow hypothesis, the stock market favorably responses to the announcement of a firm being targeted by an active investor. The target firms' long-term stock return does not revert to negative values.

Recently, many target firms come up with increasing cross shareholdings. Takeover defenses approved by shareholders are nothing more than camouflage of across shareholdings. Even without the poison pill, Steel Partners would have lost the battle with Bull-Dog. Indeed, once Bull-Dog's cross holding ownership went to forty eight percent in 2000 but it soared to forty four percent in 2006. There is no way for either cross border activists or domestic activist hedge funds to attain success or seek control of target firms. Probably, Steel Partners sought injunction in the court, hoping that the court would rule out cross shareholdings. It ended in the worst case: the court ruled out cross border hedge fund activism and concluded that the activist is abusive. For this, Financial Times comments:

> The management of a Japanese corporation has, in effect, been allowed to choose its own
>
> shareholders. It is a terrible corporate governance precedent that will help bad managers to stay in
>
> charge and send a clear message to foreign investors: "Stay away from Japan."

Our paper emphasizes that both cross border and domestic hedge fund activism is driven by free cash flow in Japanese firms, similar to the situation described in Jensen (1986) and the market reacts favorably to hedge fund activism. It leaves areas for future research. First, we need to observe post-intervention accounting performance of target firms to compare the influences of hedge fund activism across countries with different corporate governance styles. Similarly, more research is needed to examine long-term abnormal return after hedge fund activism. Most importantly, studies on the influence of cross-shareholdings on firm valuation are in need.

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Table 1 Summary Statistics for Steel Partners Japan's targets and the control firms

The sample of Steel Partners Japan's targets consists of 30 firms targeted by Steel Partners Japan. The control firm sample consists of 120 randomly selected industrial peers. For each target, 4 industrial peers are selected randomly. Q is the market-to-book, the ratio of sum of market value of equity and the book value of debt to the book value of assets. Cash is cash to assets ratio. Excess cash is equal to cash to assets ratio if the market-to-book is less than one, otherwise 0. Normal cash is cash minus excess cash. Adjusted excess cash is the ratio of cash to assets in excess of the industrial median ratio of cash to assets if the cash holding is more than the industrial median and the market-to-book is less than one, otherwise 0. Adjusted normal cash is cash minus adjusted excess cash. Excess Cash (1-Q) is the product of (1-the market-to-book) and the ratio of cash to assets if the market-to-book is less than one, otherwise 0. Adjusted Excess Cash (1-Q) is the product of (1-Q) and adjusted excess cash. Leverage is the ratio of liability to assets. Financial institutional ownership, corporate ownership, individual ownership and foreign investors' ownership are the fractions of equity held by financial institutions, corporate shareholders, individual investors and foreign investors and executives respectively.

	SPJ's targets			Control firms			p-value	
	mean	median		mean	median		t-test	Wilcoxon test
Q	0.9416635	0.9530009		1.107395	0.9910291		0.0433	0.106
Cash	0.169783	0.1409847		0.1079571	0.0758291		0.0015	0.0083
Excess Cash	0.1226384	0.0908272		0.0571836	0.0107381		0.0005	0.0244
Normal Cash	0.0471446	0		0.0507735	0		0.578	0.4012
Adj. Cash	0.0859305	0.054847		0.0205073	-0.0116207		0.0008	0.002
Adj. Excess Cash	0.0736627	0.0103971		0.0218933	0		0.0001	0.0025
Adj. Normal Cash	0.0961203	0.080978		0.0860638	0.0758291		0.2615	0.2616
Excess Cash (1-Q)	0.0316967	0.0074659		0.0111746	0.000494		0.0002	0.0775
Adj. Excess Cash (1-Q)	0.0205055	0.0002218		0.0042098	0		0.0001	0.0039
Leverage	0.3277754	0.2906683		0.4947489	0.4946738		0	0.0001
Ownership								
Financial Institution	0.2894556	0.2745339		0.249362	0.2265392		0.0937	0.0474
Corporate	0.1828417	0.1797417		0.2716328	0.222227		0.0066	0.0518
Individual	0.389284	0.3541782		0.4042202	0.3904448		0.3495	0.9214
Foreign	0.1205951	0.1048611		0.058317	0.0173934		0.0002	0
Executive	0.0254374	0.008502		0.0529866	0.0099335		0.0462	0.8143
Log(market value of equity)	10.43577	10.33376		9.830743	9.53261		0.0471	0.0256

Table 2 Summary Statistics for Murakami's targets and the control firms

The sample of Murakami's targets consists of 37 firms targeted by Steel Partners Japan. The control firm sample consists of 148 randomly selected industrial peers. For each target, 4 industrial peers are selected randomly. Q is the market-to-book, the ratio of sum of market value of equity and the book value of debt to the book value of assets. Cash is cash to assets ratio. Excess cash is equal to cash to assets ratio if the market-to-book is less than one, otherwise 0. Normal cash is cash minus excess cash. Adjusted excess cash is the ratio of cash to assets in excess of the industrial median ratio of cash to assets if the cash holding is more than the industrial median and the market-to-book is less than one, otherwise 0. Adjusted normal cash is cash minus adjusted excess cash. Excess Cash (1-Q) is the product of (1-the market-to-book) and the ratio of cash to assets if the market-to-book is less than one, otherwise 0. Adjusted Excess Cash (1-Q) is the product of (1-Q) and adjusted excess cash. Leverage is the ratio of liability to assets. Financial institutional ownership, corporate ownership, individual ownership and foreign investors' ownership are the fractions of equity held by financial institutions, corporate shareholders, individual investors and foreign investors and executives respectively.

| | Murakami's targets | | | Control firms | | | p-value | |
	mean	median		mean	median		t-test	Wilcoxon test
Q	1.052801	0.8553465		1.434484	1.014013		0.2802	0.0967
Cash	0.1845429	0.1271216		0.1088669	0.0844676		0.0003	0.0074
Excess Cash	0.101039	0.0873027		0.0492054	0		0.0019	0.0166
Normal Cash	0.083504	0		0.0596615	0.00528		0.1235	0.3465
Adj. Cash	0.0639126	0.0275706		0.021417	-0.0029822		0.016	0.0926
Adj. Excess Cash	0.0446805	0		0.0172239	0		0.0141	0.0452
Adj. Normal Cash	0.1398624	0.1007292		0.0916429	0.0844676		0.0035	0.0121
Excess Cash (1-Q)	0.0326488	0.0099602		0.0109942	0		0.0063	0.0153
Adj. Excess Cash (1-Q)	0.0180352	0		0.0042919	0		0.0193	0.0381
leverage	0.3885068	0.3958339		0.5318357	0.5433976		0.0003	0.0008
Ownership								
Financial Institution	0.2178845	0.2148091		0.2247321	0.1929798		0.3984	0.8989
Corporate	0.2229501	0.2020329		0.2770352	0.2588481		0.0469	0.0946
Individual	0.4382426	0.42897		0.408398	0.3968878		0.2151	0.3946
Foreign	0.1047625	0.0693449		0.0736767	0.0313257		0.0458	0.0002
Executive	0.0821926	0.0116925		0.0718219	0.0153472		0.6257	0.9945
Log(market value of equity)	10.07187	10.05706		9.717422	9.242714		0.1295	0.0458

Table 3 Determinants of targets for Steel Partners Japan

The sample consists of 30 targets and 120 randomly selected control firms between 2000 and 2004. Q is the market-to-book, the ratio of sum of market value of equity and the book value of debt to the book value of assets. Cash is cash to assets ratio. Excess cash is equal to cash to assets ratio if the market-to-book is less than one, otherwise 0. Normal cash is cash minus excess cash. Adjusted excess cash is the ratio of cash to assets in excess of the industrial median ratio of cash to assets if the cash holding is more than the industrial median and the market-to-book is less than one, otherwise 0. Adjusted normal cash is cash minus adjusted excess cash. Excess Cash (1-Q) is the product of (1-the market-to-book) and the ratio of cash to assets if the market-to-book is less than one, otherwise 0. Adjusted Excess Cash (1-Q) is the product of (1-Q) and adjusted excess cash. Leverage is the ratio of liability to assets. Financial institutional ownership, corporate ownership, individual ownership and foreign investors' ownership are the fractions of equity held by financial institutions, corporate shareholders, individual investors and foreign investors and executives respectively. *,**, *** indicate significance at 10%, 5% and 1% respectively.

Excess Cash (1-Q)	19.00694	**	20.68186	**				
	8.719811		8.742561					
Normal Cash	3.239314		2.897123					
	3.119091		3.21676					
Adj. Excess Cash (1-Q)					28.68296	**	30.86798	***
					12.0306		11.70043	
Adj. Normal Cash					3.017254		2.619386	
					3.056066		3.132907	
Q	-1.47731	*	-1.50807	*	-1.56116	*	-1.61004	*
	0.836384		0.857259		0.870805		0.891963	
Leverage	-3.24453	**	-2.50129		-3.21877	**	-2.50479	*
	1.58791		1.525935		1.55982		1.481324	
Ownership								
Financial institution	-3.80451				-3.90961			
	2.86696				2.871778			
Corporate	-6.02108	***			-6.06926	***		
	1.827869				1.838496			
Foreign investor			8.246033	*			8.346734	*
			4.777905				4.978659	
Individual			4.604067	**			4.692259	**
			2.008434				2.011281	
Executive	-13.288	***	-12.7241	***	-13.7293	***	-13.249	***
	4.680673		4.857874		4.908453		5.101728	
log(market value of equity)	0.418051		0.366676		0.386103		0.32906	
	0.277293		0.301879		0.271632		0.305236	
Constant	-0.4855		-5.18981		0.080664		-4.60146	
	2.285034		3.253104		2.213888		3.20385	
Observations	150		150		150		150	
Pesudo R2	0.282		0.2788		0.2882		0.2882	
Prob > chi2(8)	0.0005		0.0027		0.0004		0.0004	

Table 4 Determinants of targets for Murakami Fund

The sample consists of 37 targets and 148 randomly selected control firms between 2000 and 2004. Q is the market-to-book, the ratio of sum of market value of equity and the book value of debt to the book value of assets. Cash is cash to assets ratio. Excess cash is equal to cash to assets ratio if the market-to-book is less than one, otherwise 0. Normal cash is cash minus excess cash. Adjusted excess cash is the ratio of cash to assets in excess of the industrial median ratio of cash to assets if the cash holding is more than the industrial median and the market-to-book is less than one, otherwise 0. Adjusted normal cash is cash minus adjusted excess cash. Excess Cash (1-Q) is the product of (1-the market-to-book) and the ratio of cash to assets if the market-to-book is less than one, otherwise 0. Adjusted Excess Cash (1-Q) is the product of (1-Q) and adjusted excess cash. Leverage is the ratio of liability to assets. Financial institutional ownership, corporate ownership, individual ownership and foreign investors' ownership are the fractions of equity held by financial institutions, corporate shareholders, individual investors and foreign investors and executives respectively. *,**, *** indicate significance at 10%, 5% and 1% respectively. *,**, *** indicate significance at 10%, 5% and 1% respectively.

Excess Cash (1-Q)	12.01926		12.08978					
	9.195711		9.224776					
Normal Cash	5.490647	**	5.554812	**				
	2.800678		2.838693					
Adj. Excess Cash (1-Q)					7.061498		7.080518	
					4.362459		4.466213	
Adj. Normal Cash					5.132063	*	5.188309	*
					2.864741		2.89422	
Market-to-book	-1.3542		-1.37275		-1.47922		-1.49545	
	1.05902		1.091347		1.079277		1.122021	
Leverage	-1.57641		-1.56826		-1.95466	*	-1.95299	*
	1.096032		1.162601		1.021582		1.078002	
Ownership								
Financial institution	-2.57396				-2.48438			
	1.725179				1.708767			
Corporate	-2.59146	*			-2.46634	*		
	1.466698				1.434435			
Foreign investor			2.526713				2.37493	
			2.337014				2.305231	
Individual			2.611864	*			2.502585	*
			1.346286				1.337209	
Executive	-1.48317		-1.59992		-1.38736		-1.50009	
	1.985399		2.027248		1.996543		2.048168	
log(market value of equity)	0.370528	**	0.378042	**	0.328842	*	0.336102	*
	0.182942		0.175464		0.185151		0.177153	
Constant	-2.09963		-4.70208		-1.26958		-3.75742	
	1.671075		2.074185		1.497523		1.866969	
Observations	185		185		185		185	
Pesudo R2	0.1388		0.1392		0.1306		0.1309	
Prob > chi2(8)	0.0031		0.0038		0.0013		0.0017	

Table 5 Event Study Results

Event day is the earlier day of the day after the large shareholdings filing or press news release day

*** indicates significance at the 1% level

	mean		t	median		z	N
Panel A: Including events when a firm is targeted secondly							
	mean		**t**	**median**		**z**	**N**
			Standard Event Study				
CAR(-1,0)	0.045705	***	10.151	0.0266243	***	5.378	67
CAR(-1,1)	0.0507876	***	9.21	0.0351574	***	4.766	67
CAR(-2,2)	0.0561124	***	7.882	0.0419071	***	4.935	67
			Event study using Scholes and Williams's (1977) beta				
CAR(-1,0)	0.0443737	***	9.855	0.0257074	***	5.178	67
CAR(-1,1)	0.0498171	***	8.802	0.0286641	***	4.573	67
CAR(-2,2)	0.0550264	***	7.531	0.0398716	***	4.672	67
Panel B: Excluding events when a firm is targeted secondly							
	mean		**t**	**median**		**z**	**N**
			Standard Event Study				
CAR(-1,0)	0.0467838	***	10.137	0.0288327	***	5.283	65
CAR(-1,1)	0.0522591	***	9.245	0.0377866	***	4.735	65
CAR(-2,2)	0.0579133	***	7.936	0.0432111	***	4.937	65
			Event study using Scholes and Williams's (1977) beta				
CAR(-1,0)	0.0454092	***	9.839	0.0263261	***	5.074	65
CAR(-1,1)	0.051256	***	8.821	0.0316393	***	4.571	65
CAR(-2,2)	0.0568279	***	7.576	0.0408489	***	4.676	65

Table 6 Event Study Results by Excess Cash or by Funds (including events when a firm is targeted twice) Event day is the earlier day of the day of the large shareholdings filing or press news release day. *, **, *** indicate significance at 10%, 5% and 1% respectively.

		mean		t	median		z	# of observations
Including events when a firm is targeted secondly								
Panel A: Classification by Excess Cash								
Excess Cash > 0								
	CAR(-1,0)	0.037	***	4.929	0.016	***	3.062	24
Standard Event Study	CAR(-1,1)	0.039	***	4.268	0.022	***	2.654	24
	CAR(-2,2)	0.043	***	3.603	0.028	***	2.654	24
Event study using Scholes and Williams's (1977) beta	CAR(-1,0)	0.038	***	4.981	0.015	***	3.062	24
	CAR(-1,1)	0.040	***	4.350	0.023	***	2.654	24
	CAR(-2,2)	0.045	***	3.775	0.033	***	2.654	24
Excess Cash =0								
	CAR(-1,0)	0.051	***	9.428	0.034	***	4.270	43
Standard Event Study	CAR(-1,1)	0.057	***	8.714	0.040	***	3.050	43
	CAR(-2,2)	0.064	***	7.496	0.048	***	4.575	43
Event study using Scholes and Williams's (1977) beta	CAR(-1,0)	0.048	***	8.828	0.030	***	3.965	43
	CAR(-1,1)	0.055	***	8.258	0.035	***	2.745	43
	CAR(-2,2)	0.061	***	7.025	0.043	***	3.965	43
Difference								
	CAR(-1,0)	0.014		1.482	-0.018		1.046	
Standard Event Study	CAR(-1,1)	0.018		1.608	-0.019		0.811	
	CAR(-2,2)	0.021		1.439	-0.020		0.745	
Event study using Scholes and Williams's (1977) beta	CAR(-1,0)	0.011		1.151	-0.015		0.680	
	CAR(-1,1)	0.015		1.330	-0.012		0.602	
	CAR(-2,2)	0.016		1.071	-0.010		0.536	
Panel B: Classification by Adj. Excess Cash								
Adj. Excess Cash = 0								
	CAR(-1,0)	0.043	***	7.160	0.019	***	3.617	37
Standard Event Study	CAR(-1,1)	0.040	***	5.432	0.024	***	2.959	37
	CAR(-2,2)	0.047	***	4.911	0.036	***	3.288	37
Event study using Scholes and Williams's (1977) beta	CAR(-1,0)	0.043	***	7.019	0.020	***	3.288	37
	CAR(-1,1)	0.041	***	5.463	0.029	***	2.630	37
	CAR(-2,2)	0.048	***	5.021	0.040	***	2.959	37
Adj. Excess Cash > 0								
	CAR(-1,0)	0.049	***	7.729	0.036	***	3.834	30
Standard Event Study	CAR(-1,1)	0.064	***	8.261	0.040	***	2.739	30
	CAR(-2,2)	0.068	***	6.762	0.043	***	4.199	30
Event study using Scholes and Williams's (1977) beta	CAR(-1,0)	0.046	***	7.226	0.036	***	3.834	30
	CAR(-1,1)	0.061	***	7.756	0.032	***	2.739	30
	CAR(-2,2)	0.063	***	6.231	0.037	***	3.834	30
Difference								
	CAR(-1,0)	0.006		0.662	-0.016		1.072	
Standard Event Study	CAR(-1,1)	0.024	**	2.229	-0.016		0.933	
	CAR(-2,2)	0.021		1.507	-0.007		0.782	
Event study using Scholes and Williams's (1977) beta	CAR(-1,0)	0.004		0.427	-0.016		0.832	
	CAR(-1,1)	0.020	*	1.875	-0.003		0.668	
	CAR(-2,2)	0.015		1.074	0.002		0.618	
Panel C: Classification by Funds								
Murakami								
	CAR(-1,0)	0.051	***	7.511	0.031	***	3.946	37
Standard Event Study	CAR(-1,1)	0.042	***	5.014	0.028	***	3.288	37
	CAR(-2,2)	0.046	***	4.330	0.033	***	3.946	37
Event study using Scholes and Williams's (1977) beta	CAR(-1,0)	0.049	***	7.083	0.026	***	3.617	37
	CAR(-1,1)	0.040	***	4.748	0.028	***	2.959	37
	CAR(-2,2)	0.044	***	4.086	0.033	***	3.288	37
Steel								
	CAR(-1,0)	0.039	***	7.816	0.026	***	3.469	30
Standard Event Study	CAR(-1,1)	0.062	***	10.088	0.045	***	2.373	30
	CAR(-2,2)	0.068	***	8.568	0.051	***	3.469	30
Event study using Scholes and Williams's (1977) beta	CAR(-1,0)	0.039	***	7.718	0.025	***	3.469	30
	CAR(-1,1)	0.062	***	10.009	0.045	***	2.373	30
	CAR(-2,2)	0.068	***	8.524	0.048	***	3.469	30
Difference								
	CAR(-1,0)	-0.012		-1.326	0.005		0.845	
Standard Event Study	CAR(-1,1)	0.020	*	1.899	-0.017		0.429	
	CAR(-2,2)	0.022		1.557	-0.019		0.933	
Event study using Scholes and Williams's (1977) beta	CAR(-1,0)	-0.010		-1.102	0.001		0.542	
	CAR(-1,1)	0.022	**	2.003	-0.016		0.618	
	CAR(-2,2)	0.024		1.674	-0.016		1.084	

Table 7 Event Study Results by Excess Cash or by Funds (including events when a firm is targeted twice)
Event day is the earlier day of the day of the large shareholdings filing or press news release day. *, **,
*** indicate significance at 10%, 5% and 1% respectively.

		mean		t	median		z	# of observations
Excluding events when a firm is targeted secondly								
Panel A: Classification by Excess Cash								
Excess Cash=0								
Standard Event Study	CAR(-1,0)	0.038	***	4.951	0.015	***	2.919	23
	CAR(-1,1)	0.041	***	4.328	0.024	**	2.502	23
	CAR(-2,2)	0.044	***	3.649	0.031	**	2.502	23
Event study using Scholes and Williams's (1977) beta	CAR(-1,0)	0.038	***	5.008	0.014	***	2.919	23
	CAR(-1,1)	0.042	***	4.413	0.026	**	2.502	23
	CAR(-2,2)	0.047	***	3.834	0.033	**	2.502	23
Excess Cash >0								
Standard Event Study	CAR(-1,0)	0.052	***	9.436	0.035	***	4.166	42
	CAR(-1,1)	0.059	***	8.750	0.042	***	3.240	42
	CAR(-2,2)	0.065	***	7.562	0.048	***	4.783	42
Event study using Scholes and Williams's (1977) beta	CAR(-1,0)	0.049	***	8.830	0.032	***	3.858	42
	CAR(-1,1)	0.057	***	8.291	0.039	***	2.932	42
	CAR(-2,2)	0.062	***	7.087	0.043	***	4.166	42
Difference								
Standard Event Study	CAR(-1,0)	0.014		1.480	-0.020		1.098	
	CAR(-1,1)	0.018		1.588	-0.017		0.837	
	CAR(-2,2)	0.021		1.448	-0.018		0.768	
Event study using Scholes and Williams's (1977) beta	CAR(-1,0)	0.011		1.141	-0.018		0.713	
	CAR(-1,1)	0.015		1.307	-0.013		0.617	
	CAR(-2,2)	0.016		1.067	-0.010		0.562	
Panel B: Classification by Adj. Excess Cash								
Adj. Excess Cash = 0								
Standard Event Study	CAR(-1,0)	0.044	***	7.194	0.020	***	3.500	36
	CAR(-1,1)	0.041	***	5.483	0.026	***	2.833	36
	CAR(-2,2)	0.048	***	4.955	0.042	***	3.167	36
Event study using Scholes and Williams's (1977) beta	CAR(-1,0)	0.043	***	7.054	0.021	***	3.167	36
	CAR(-1,1)	0.042	***	5.514	0.030	***	2.500	36
	CAR(-2,2)	0.049	***	5.074	0.041	***	2.833	36
Adj. Excess Cash > 0								
Standard Event Study	CAR(-1,0)	0.050	***	7.739	0.037	***	3.714	29
	CAR(-1,1)	0.066	***	8.308	0.040	***	2.971	29
	CAR(-2,2)	0.071	***	6.844	0.043	***	4.457	29
Event study using Scholes and Williams's (1977) beta	CAR(-1,0)	0.048	***	7.229	0.037	***	3.714	29
	CAR(-1,1)	0.063	***	7.799	0.035	***	2.971	29
	CAR(-2,2)	0.066	***	6.308	0.041	***	4.085	29
Difference								
Standard Event Study	CAR(-1,0)	0.007		0.746	-0.017		1.175	
	CAR(-1,1)	0.025	**	2.323	-0.014		1.016	
	CAR(-2,2)	0.023		1.616	-0.001		0.897	
Event study using Scholes and Williams's (1977) beta	CAR(-1,0)	0.005		0.499	-0.017		0.911	
	CAR(-1,1)	0.022	*	1.960	-0.005		0.726	
	CAR(-2,2)	0.017		1.169	0.001		0.726	
Panel C: Classification by fund								
Murakami								
Standard Event Study	CAR(-1,0)	0.052	***	7.534	0.034	***	3.833	36
	CAR(-1,1)	0.043	***	5.045	0.032	***	3.167	36
	CAR(-2,2)	0.047	***	4.354	0.033	***	3.833	36
Event study using Scholes and Williams's (1977) beta	CAR(-1,0)	0.050	***	7.103	0.028	***	3.500	36
	CAR(-1,1)	0.041	***	4.776	0.028	***	2.833	36
	CAR(-2,2)	0.045	***	4.112	0.033	***	3.167	36
Steel								
Standard Event Study	CAR(-1,0)	0.041	***	7.838	0.026	***	3.343	29
	CAR(-1,1)	0.064	***	10.168	0.048	***	2.600	29
	CAR(-2,2)	0.071	***	8.690	0.054	***	3.714	29
Event study using Scholes and Williams's (1977) beta	CAR(-1,0)	0.040	***	7.733	0.026	***	3.343	29
	CAR(-1,1)	0.064	***	10.087	0.047	***	2.600	29
	CAR(-2,2)	0.071	***	8.644	0.053	***	3.714	29
Difference								
Standard Event Study	CAR(-1,0)	-0.011		-1.265	0.008		0.765	
	CAR(-1,1)	0.022	*	1.988	-0.016		0.501	
	CAR(-2,2)	0.024		1.667	-0.021		1.043	
Event study using Scholes and Williams's (1977) beta	CAR(-1,0)	-0.010		-1.046	0.003		0.488	
	CAR(-1,1)	0.023	**	2.090	-0.018		0.686	
	CAR(-2,2)	0.025		1.776	-0.021		1.201	

Table 8 The impact of excess cash calculated using Q (market-to-book) on five day cumulative abnormal return (including events when a firm is targeted secondly)

Excess cash is equal to cash to assets ratio if the market-to-book is less than one, otherwise 0. Normal cash is cash minus excess cash. Adjusted excess cash is the ratio of cash to assets in excess of the industrial median ratio of cash to assets if the cash holding is more than the industrial median and the market-to-book is less than one, otherwise 0. Adjusted normal cash is cash minus adjusted excess cash. Excess Cash (1-Q) is the product of (1-the market-to-book) and the ratio of cash to assets if the market-to-book is less than one, otherwise 0. Adjusted Excess Cash (1-Q) is the product of (1-Q) and adjusted excess cash. Q < 1 dummy is equal to 1 if the market-to-book Q <1, otherwise 0. SPJ dummy is equal to 1 in cases of SPJ's targets, otherwise 0. Leverage is the ratio of liability to assets. Foreign investors' ownership is the fraction of foreign investors' shareholding in outstanding share. Active investor's ownership is the equity ownership filed as large shareholding. *, **, *** indicate significance at 10%, 5% and 1% respectively.

Independent variable	CAR(-2, 2)				Scholes and Williams's CAR(-2,2)			
Excess Cash (1-Q)	0.4155374	***			0.4242837	***		
	0.0575507				0.0573911			
Adjusted Excess Cash (1-Q)			0.4888457	***			0.5017007	***
			0.0680149				0.067706	
Normal Cash	-0.165324	*	-0.17047	*	-0.158126	*	-0.163299	*
	0.0978787		0.098479		0.0955732		0.0960201	
Q<1 dummy	-0.021893		-0.016936		-0.02579		-0.020769	
	0.0326656		0.0327561		0.0324413		0.0324957	
SPJ dummy	0.0372195	*	0.0351738	*	0.0409585	***	0.0388719	*
	0.0207167		0.0206788		0.0211477		0.0210993	
Leverage	0.1657277	***	0.163029	***	0.1724273	***	0.1699111	***
	0.0606521		0.0604871		0.0615806		0.0612398	
Active investor's ownership	0.3112633		0.2980244		0.359407		0.3454067	
	0.487895		0.4859046		0.4846818		0.482702	
Foreign investors' ownership	-0.288043	**	-0.29601	**	-0.297108	**	-0.305392	**
	0.1308325		0.1326277		0.131022		0.1325757	
Constant	0.0026517		0.0075201		-0.003014		0.0018901	
	0.0461952		0.0465438		0.0460998		0.0462617	
# of observations	67		67		67		67	
F(7,59)	8.07		9.32		8.37		9.57	
R-squared	0.311		0.3037		0.3185		0.312	

Table 9 Long-term Abnormal Returns of Steel Partners' Targets

The dependent variable is the value-weighted monthly rebalanced calendar time portfolio returns in excess of the risk-free rate, as proxied by the secured call money rate. The value-weighted monthly rebalanced calendar time portfolio returns are calculated each month from all firms targeted by Steel Partners in the previous 12 months. RMRF, SMB, HML and MOMENTUMM are calculated by Tekehara (2007). The table reports the intercept alpha and the coefficients (factor loadings) on the explanatory variables RMRF, SMB, HML and Momentum.

	September 2002 -May 2006			
alpha	2.956748	2.934777	3.216054	3.226033
	0.004	0.004	0.001	0.001
RMRF	0.4070045	0.4056309	0.3712317	0.3786385
	0.055	0.053	0.069	0.066
SMB	-0.084337	-0.103249		
	0.785	0.732		
HML	0.2335494	0.2507461		
	0.428	0.384		
Momentum	-0.111342			-0.182528
	0.708			0.518
Adj R-squared	0.00152	0.0358	0.0532	0.0404
No. observations	45	45	45	45

Table 10 Long-term Abnormal Returns of Murakami Fund's Targets

The dependent variable is the value-weighted monthly rebalanced calendar time portfolio returns in excess of the risk-free rate, as proxied by the secured call money rate. The value-weighted monthly rebalanced calendar time portfolio returns are calculated each month from all firms targeted by Murakami Fund in the previous 12 months. RMRF, SMB, HML and MOMENTUMM are calculated by Tekehara (2007). The table reports the intercept alpha and the coefficients (factor loadings) on the explanatory variables RMRF, SMB, HML and Momentum.

	July 2001 -May 2006			
alpha	0.4402511	0.3892318	1.480148	1.33759
	0.699	0.737	0.189	0.218
RMRF	1.055124	1.057133	0.9351015	0.9654576
	0	4.5	0	0
SMB	0.2372311	0.1931505		
	0.535	0.61		
HML	0.7733261	0.9355545		
	0.035	0.01		
Momentum	-0.631819			-0.82882
	0.087			0.023
Adj R-squared	0.289	0.2626	0.1966	0.255
No. observations	59	59	59	59