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Does economic environment affect ownership-performance relation? Evidence from financial deregulation in Japan

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Abstract

Using two samples of Japanese manufacturing firms listed on the first section of Tokyo Stock Exchange, one for fiscal year 1984 and the other for fiscal year 2004, this paper investigates the effect of the changing economic environment, i.e. financial deregulation, on the ownership-performance relation in Japan. The evidence shows that there is little relationship between ownership structure and corporate performance in the 1984 sample, while the overall concentration of ownership, as well as particular types of shareholders, is significantly correlated with both Tobin's Q and ROA in the 2004 sample. We explain the contrasting results by the evolution of corporate governance environment driven by the financial deregulation over the past two decades. To be precise, in the tightly regulated traditional environment of the early 1980s, ownership structure that is dominated by stable holding played no role on corporate performance. However, deregulation has resulted in the development of the capital markets and the changes in ownership structure — the decline in domestic stable shares and the rise in foreign shares. Senior managers feel increasing pressures from the markets and short-term investors. Consequently, ownership structure has become an important determinant on performance in today's market-oriented environment.

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