

Shareholder perks and principal-principal conflicts: Evidence from mergers and acquisitions

Donglai Ning, Hitotsubashi University (PhD Candidate)

Qingyi Tai, Meiji University (PhD Candidate)

Yukihiro Yasuda, Hitotsubashi University

Abstract

We explore the distinctive profit distribution method of shareholder perks in Japan, which preferentially benefits small shareholders, and examine its implications for principal-principal (PP) conflicts within the context of mergers and acquisitions (M&A). We observe positive market reactions to M&A announcements from perk-paying acquirers, especially from the firms with severe conflicts between large shareholders and small shareholders. Furthermore, we find perk-paying firms also achieve more synergy gains from M&A deals. These findings support the reputation hypothesis over the entrenchment hypothesis, suggesting that shareholder perks contribute to firm value enhancement by mitigating PP conflicts rather than detracting from firm value by exacerbating these conflicts.

JEL Classification: G14, G32, G34, G35

Keywords: Shareholder perk; Mergers and acquisitions; Agency problem; Principal-principal conflict