

De Facto Cross-Shareholding using a Pension Trust: Its Implications for Management Entrenchment and Corporate Governance

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Abstract

This study examines how firms sponsoring defined benefit (DB) pension plans use pension trust arrangements, known as Employee Retirement Benefit Trusts (ERBTs) to entrench management. ERBTs improve pension funding by allowing companies to contribute shares while retaining voting rights, maintaining de facto cross-shareholdings. ERBTs lead to suboptimal pension portfolios, incurring hidden costs for shareholders and employees. Empirical analysis of DB plan sponsors in Japan reveals that strong corporate governance—through foreign institutional ownership, board compositions, and labor unions—reduces ERBT adoption. The findings reveal that ERBTs serve managerial entrenchment motives and that labor unions, especially in firms with younger employees, deter ERBT usage. This study highlights the need for effective governance and stakeholder engagement in DB pension plan management.