

# Why firms provide seemingly irrational noncash shareholder perks?

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## Abstract

Providing shareholder perks, which are periodical non-cash gifts from firms to their shareholders, is seemingly irrational corporate practice as it involves extra costs compared to more straightforward method of payout such as cash dividend or stock repurchases. Prior studies have revealed the effects of shareholder perks on firm value, trading activity, and shareholder base, however the question of why substantial number of companies provide shareholder perks has not been directly examined. We conduct empirical analyses on companies' motivation to initiate, continue, or suspend shareholder perks in Japan, where almost 40 percent of listed companies have shareholder perk programs. The results indicate that firms with concerns for insufficient number of shareholders are more likely to initiate the program, however, the number of firms that provide shareholder perks is declining after 2020, when the announcement of the change in listing requirements on the number of shareholders is released along with the market restructuring of the Tokyo Stock Exchange. The tendency to suspend shareholder perks is stronger for firms that provide more costly shareholder perks such as gift cards or other firms' products or services. On the other hand, firms that provide their own products as shareholders perks or firms that provide additional shareholder perks for long-term shareholders are less likely to suspend the shareholder perks even when they are no longer required to maintain a large number of shareholders.

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## 1. Introduction

Shareholder perk programs are a widespread corporate practice that offers various kinds of non-cash gifts to their shareholders. Examples include firms' products, discount coupons for the firms' or related companies' products and services, and gift certificates. Firms in the United Kingdom and Australia offer perks to shareholders, although lesser number of firms offer shareholder perks today.<sup>1</sup> In France, shareholders can join shareholders' clubs, some of which provide shareholder perks, such as discounts on the firm's products and services. In the United States, most firms do not offer shareholder perks, but some firms offer perks or souvenirs to shareholders at shareholder meetings. In contrast to the US and Europe, the number of firms with shareholder perk programs in Japan has increased steadily over the past two decades. Figure 1 shows the total number of firms with shareholder perk programs and firms that initiated and suspended shareholder perks from 2003 to 2023. Although the number of firms that provide shareholder perks is declining after 2020, the total percentage of firms that provide shareholder perks has still been nearly 40%, which is significantly higher than other countries.

The increasing popularity of shareholder perks in Japan has contributed to the availability of detailed data on the types and monetary values of these perks. Three recent studies utilize

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<sup>1</sup> Warwick-Ching reports that the peak of shareholder perks was in the 1990s in the UK whereas an increase in investment through nominee accounts has made the distribution of shareholder perks less popular (Financial Times, November 22, 2013).

Japanese data and examine the effects of shareholder perks on firm value, trading activity, and shareholder base. Karpoff, Schonlau, and Suzuki (2021) find that firms that announce an initiation (suspension) of shareholder perks experience a significantly positive (negative) stock price reaction around the announcement, and an increase in the market value of equity in the longer horizon after the initiation of the perks, with a decrease in the cost of capital. Nose, Miyagawa, and Ito (2021) show higher abnormal prices (price run-ups), especially for stocks with short-selling restrictions, larger trading volumes, and more short interests toward the ex-perk day for stocks with shareholder perks, concluding that shareholder perks attract individual investors and increase firm visibility. Huang, Rhee, Suzuki, and Yasutake (2022) examine the price movement and trading volume around ex-shareholder perks day, and find a significant price drop around the ex-day, which strongly suggests that investors value shareholder perks. They also document excessive trading around the ex-day, which they attribute to the heterogeneity in the value of shareholder perks perceived by investors.

While these studies have revealed important aspects of shareholder perks, the more fundamental questions of why and how firms initiate, continue, or suspend perks have not been directly examined. Unlike cash dividends and stock repurchases, which are more straightforward method of payout to shareholders, shareholder perks involve extra costs such as mailing gifts to shareholders. The cost of providing the company's own products could be lower than the market

price of these products. Providing company's own products as shareholder perks could also work as effective advertisement of the company itself and/or its products to shareholders who are also consumers, thereby making shareholders more committed patrons of the company (Keloharju, Knüpfer, and Linnainmaa., 2012; Karpoff et al.,2021). However, providing other company's products including gift card does not have such "marketing" effect and the cost exceeds the value of the gift itself<sup>2</sup>. When the total cost of a gift is greater than its value without expected additional marketing effect, why do companies provide such costly shareholder perks rather than simply paying dividends of the same value?<sup>3</sup>

To investigate the reason why substantial number of Japanese firms provide this seemingly irrational shareholder perks, the authors of this paper conducted a large-scale survey on shareholder perk programs by sending questionnaire to all listed 3,702 companies in Tokyo Stock Exchange (TSE, hereafter) from the end of 2016 to early 2017.<sup>4</sup> The main survey results are reported in Yasutake, Nagata, and Matsuda (2018), coupled with out-of-sample empirical tests on

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<sup>2</sup> For example, the cost of 500 yen gift card, such as QUO card in Japan, with the company's name printed on it is higher than 500 yen due to printing and handling cost.

<sup>3</sup> From shareholders perspective, value of shareholder perks is different among investors. For individual/retail investors, perks are usually not taxed unless reported, whereas institutional investors cannot consume perks and must report proceeds from perks as miscellaneous income which is taxed. Thus, for individual/retail investors, who can consume freebies in addition to their taxable dividend income, shareholder perks are an extra, almost tax-free benefit. For institutional investors, non-cash gifts have little value due to tax and transaction costs.

<sup>4</sup> We received responses from 444 companies with a response rate of 12%.

the determinant to initiate and suspend shareholder perks.<sup>5</sup> Yasutake et al. (2018) report that increasing the number of shareholders is one of the main purposes of providing perks for most firm.<sup>6</sup> Their empirical results also indicate that firms, whose number of shareholders is close to the border of the minimum listing requirement of TSE are more likely to initiate shareholder perks, and the relationship is stronger for firms that provide shareholder perks in the form of gift cards or other firms' products, which does not have marketing effects and is more costly than providing the firms' own products.

The TSE's listing requirement, however, has been changed along with the market restructuring of the TSE from four segments (1st, 2nd, JASDAQ, and Mothers) to three segments (Prime, Standard, and Growth) in April 2022. The new listing requirement, with much smaller number of shareholders, was announced in February 2020 and came in effect from April 2022. Because of this change in listing requirement, firms are no longer required to maintain large number of shareholders in most cases. Motivated by the findings in Yasutake et al. (2018) and some additional unpublished survey results, this study empirically examines the likelihood of firms

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<sup>5</sup> Yasutake, Nagata, and Matsuda (2018) reports the survey results mainly on the purposes of providing shareholder perks with empirical analyses, and Yasutake and Nagata (2018) reports the survey results on the accounting treatment of the shareholder perks. For the details of the survey method, refer to Yasutake, Nagata, and Matsuda (2018).

<sup>6</sup> Shareholder perks are offered per investor and are not proportional to the number of shares each investor holds. Most firms offer additional benefits according to the number of shares owned, but not in a completely proportional manner. As smaller shareholders can enjoy larger benefit per share, shareholder perks are effective in increasing the number of shareholders by attracting retail investors. Also, shareholder perks are usually not taxed unless reported. For individual/retail investors, who can consume freebies in addition to their taxable dividend income, shareholder perks are an extra, almost tax-free benefit.

initiating (suspending) shareholder perks is decreased (increased), which firms still continue to offer shareholder perks, and whether there are any changes in payout after the announcement of the new listing requirement in February 2020.

Our results show that firms whose number of shareholders is close to the minimum requirement are more likely to initiate shareholder perks, but the likelihood is significantly reduced after the announcement of the new listing requirement. Correspondingly, more firms suspend shareholder perks after the announcement of the new listing requirement. We also find that firms that provide shareholder perk which is their own product, and/or firms that provide additional perks to long-term holders are less likely to suspend shareholder perks. Further, our results show that firms with strong operating performance are more likely to increase dividend when they suspend shareholder perks, while those with relatively weak performance simply suspend perks without increasing dividend.

This study contributes to the growing but still limited literature on shareholder perks. Due to the lack of accounting, legal, and tax regulations, and/or guidelines on how to treat shareholder perks, little information is available about the reasons for and the consequences of providing shareholder perks. In this study, we use unique data of listed companies in Japan and reveal that there are different motivations among firms to initiate, continue or suspend shareholder perks, and firms have been making decisions on shareholder perks strategically depending on their

purposes.

This study also contributes to the studies on investor relations (IR) activities targeting individual shareholders. In contrast to the long-standing view that retail investors are noise traders, recent research indicate that individual/retail investors play an important role in capital markets by providing liquidity that meets the immediate demands of other market participants including institutional investors, enhancing firm value, improving stock price informativeness, and contributing to market efficiency (Kaniel et al., 2008; Kaniel et al., 2012; Kelly and Tetlock, 2013; Wang and Zhang, 2015; Barrot et al., 2016; Karpoff et al., 2021).<sup>7</sup> IR professionals are also aware of retail investors' potential contribution to shareholder base whereas they find it too difficult to target retail investors (Bushee and Miller; 2012). This study shed light on the interface between firms and investors, and provide insights into a corporate activity that is directly targeting individual/retail investors. Our results that majority of firms continue providing the perks even after the reduction in the required number of shareholders suggest that they find shareholder perks as a powerful tool to reach out to current and potential individual/retail investors, and to make them loyal owners. Even though the cost could exceed the value of the perks, the total cost firms spend on shareholder perks is much less compared to cash dividends (Yasutake and Nagata, 2018;

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<sup>7</sup> This finding is also consistent with Merton (1987)'s theoretical model.

Karpoff et al., 2021)<sup>8</sup>. Considering the benefit of attracting individual investors and its marginal cost, shareholder perks play important roles distinct from dividend and share repurchases.

The remainder of this paper is structured as follows. Section 2 describes the institutional setting and hypotheses. Section 3 presents data and methodology. Section 4 reports the results of the empirical analyses for firms' decisions to initiate and suspend/continue the shareholder perks. Section 5 concludes the study.

## **2. Institutional background and hypotheses**

### 2.1 TSE market restructuring and the change in listing requirements

Since the business combination of Tokyo Stock Exchange Group and Osaka Security Exchange Group, Inc. in 2013, the Tokyo Stock Exchange's equity market has had 4 market segments, namely the First Section, the Second Section, Mothers, and JASDAQ (Standard and Growth) segments. The required number of shareholders to be listed on the First Section of the TSE was 2,200, those for the Second Section was 800, and 200 for JASDAQ and Mothers.

On April 4, 2022, the stock market was restructured into three market segments – Prime, Standard, and Growth. Preceding to this restructuring, the outline of the listing requirements for the new market segments was published on February 21, 2020. The new requirements regarding the number of shareholders for the Prime market is 800 or more, drastically reduced from 2,200.

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<sup>8</sup> For example, Yasutake and Nagata report that the average total costs on shareholder perks is only 8 percent of the total cash dividends.



The requirement for the Standard market is 400 or more, and that for the Growth market is 150 or more. About 70% of the listed firms that were originally listed in the First section or the Second section of the TSE moved to the Prime or the Standard market. These firms may have lost the motivation to continue shareholder perks as a means of increasing the total number of shareholders. About 17% of listed firms that were originally listed on JASDAQ have moved to the Standard market. For these firms, the required number of shareholders doubled from 200 to 400. These firms may become even more motivated to continue shareholder perks as a means of increasing the total number of shareholders<sup>9</sup>.

## 2.2 Hypotheses development

Based on the survey results, Yasutake et al. (2018) report that the main purpose for firms to introduce shareholder perks is to increase the number of individual shareholders and make them long-term shareholders. In their out of sample empirical analyses, they show that firms whose number of shareholders is close to the listing border are more likely to introduce shareholder perks. They also find that the relationship is stronger for firms that initiate shareholder perks in the form of gift cards or goods and services that are not the firms' own products. For reasons not to provide shareholder perks, unpublished survey results show that 82% of firms that do not provide perks

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<sup>9</sup> For about 84 % of firms that were originally listed on the first section of TSE moved to the Prime market, and the rest have moved to the Standard market. All firms that were originally listed on the second section of TSE have moved to the Standard market. About 95% of originally JASDAQ listed firms has moved to the Standard market. (<https://www.nikkei.com/telling/DGXZTS00000670X00C22A1000000/>)

(including those that used to provide perks and suspended) agree or strongly agree that “payouts should be in cash rather than providing shareholder perks.” In fact, some firms suspend shareholder perks and increase dividends.

In this study, we empirically examine factors that determine Japanese firms’ decision to initiate, continue and suspend shareholder perks, and how the change in the listing requirement, along with the major reorganization of the Tokyo Stock Exchange, affect their decisions on shareholder perks. More specifically, we test the following three hypotheses:

H1: The announcement of reduction of the minimum required number of shareholders to be listed on TSE has negative (positive) effect on the likelihood of initiating (suspending) shareholder perks.

H2: Firms that provide their own products and/or additional perks for long-term holders are less likely to suspend providing shareholder perks.

H3: Firms that have strong operating performance are more likely to suspend shareholder perks and increase dividends at the same time. Firms that have weak operating performance are more likely to suspend shareholder perks without an increase in dividends.

The first hypothesis is intended to directly investigate the effect of the change in the TSE listing requirements on the firms’ decisions to initiate a shareholder perk program. Investigation of the second and the third hypotheses are intended to reveal whether and how differently firms

with additional motivation make a decision to continue or suspend shareholder perks. Yasutake et al. (2018) report that firms that provide their own products or service to shareholders expect increase in sales and improvement in firm's recognition through a shareholder perk program. In addition, an increasing number of firms provide extra shareholder perks to those who hold the share for a long-term, reflecting firm's intention to increase the number of stable, long-term holders<sup>10</sup>. Therefore, we predict those firms that have other purposes in addition to increasing the number of shareholders are less likely to suspend the shareholder perks, even when they are no longer required to maintain a large number of shareholders. In contrast, we predict firms that provide gift cards or other firms' products and those do not offer additional perks for long-term holders are more likely to suspend the program after the announcement of the change in listing requirements. We also predict that firms that have strong operating performance are likely to replace shareholder perks regardless the requirement change. Firms with weak performance, on the other hand, tend to suspend shareholder perks without dividend increase. We also expect more firms are likely to suspend shareholder perks without dividend increase after the requirement change.

### **3. Data and methodology**

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<sup>10</sup> Unpublished survey results show that about 18% of the respondents currently or going to have perks have such additional perks for long-term holders, and 19% of firms are considering offering these additional perks.

The data on shareholder perks are taken from two guidebooks on shareholder perks (in Japanese), *Kabunushi Yutai Guide* (Daiwa Investor Relations, various years) for 2002 to 2014, and from *Shitte tokusuru kabunushi yutai* (Nomura Investor Relations, various years) for 2013 to 2023<sup>11</sup>. Financial data and ownership data were taken from the QUICK Workstation Astra Manager. We exclude banks, security companies, and insurance companies (Nikkei Industry codes = 47, 49, 51, and 52 in the QUICK database), as well as any missing values for the variables used in the regression analyses.

We first confirm the determinants to initiate shareholder perks reported in Yasutake et al. (2018) by conducting logistic regressions, where the dependent variable is a binary variable, *Perk\_initiation*, that takes the value of 1 if a firm initiates shareholder perks in the following year, and 0 otherwise. The main explanatory variable is a binary variable, *# Shareholders\_border*, that takes the value of 1 if the number of shareholders is greater than 1,900 (the number of shareholders below which those listed in the 1<sup>st</sup> section of TSE will be moved to the 2<sup>nd</sup> section, 2,000, minus 100) and less than 2,300 (the required number of shareholders to be listed in the 1<sup>st</sup> section of TSE, 2,200, plus 100), and 0 otherwise. To test the effect of the change in the listing requirement in terms of the number of shareholders (our hypothesis 1), we include a binary

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<sup>11</sup> We thank Daiwa Investor Relations for providing us the data on *Kabunushi Yutai Guide* for 2003 to 2016. Because one of the data for one of the variables of our interest, whether a firm provide additional perks to shareholders who hold the share longer than certain period, is not reported on *Kabunushi Yutai Guide* after 2014, we supplemented the data on shareholder perks by hand collecting data from the *Shitte Tokusuru Kabunushi Yutai* for 2014 to 2023.

variable *Requirement Change*, which takes the value of 1 for observations after 2020, and 0 otherwise.

We also investigate whether the relationship is stronger for firms that introduce shareholder perks in the form of gift cards, which is more costly than providing the firms' own products and cannot expect sales promotion or marketing effects. To test this hypothesis, we conduct a multinomial logit regression analysis, where the dependent variable is a dummy variable that takes the value of 1 if a firm initiates shareholder perks that are the firm's own products in the following year, 2 if a firm initiates shareholder perks that are other than the firm's own products, and 0 otherwise.

Following Yasutake et al. (2018) and Karpoff et al. (2021), we include the retail ownership (%), the board ownership (%), the natural logarithm of the advertising expenses, a binary variable that takes the value of 1 if the annual dividend is greater than 0, and 0 otherwise, the ratio of cash to total asset, Amihud's (2000) illiquidity measure of relative price impact, stock return volatility, the ratio of book value of equity over market value of equity, and the return on asset<sup>12</sup>.

Similarly, we examine factors that affect firms' decisions to continue or suspend shareholder perks by conducting logistic regression, where the dependent variable is a binary variable, *Perk\_Suspend*,

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<sup>12</sup> Based on a logit regression analysis to identify the characteristics of firms that are more likely to initiate shareholder perk programs, Karpoff et al. (2021) describe that perk-initiating firms are those seeking to attract more retail shareholders and to improve share liquidity; they also find that shareholder perks work as complements to advertising expenditures and sales.

that takes the value of 1 if a firm suspends shareholder perks in the following year, and 0 otherwise. Our main explanatory variables are *own products* and *long-term bonus*. *Own product* is a binary variable that takes the value of 1 if the shareholder perks include the firms' own product, and 0 otherwise. *Long-term bonus* is a binary variable that takes the value of 1 if the additional shareholder perks are offered to shareholders who hold the stock for a long term, and 0 otherwise. The same control variables used in the regression for the initiation of shareholder perks are included in the regression for suspension. We also conduct a multinomial logit regression analysis, where the dependent variable is a dummy variable that takes the value of 1 if a firm suspends shareholder perks and increases cash dividends in the following year, 2 if a firm suspends shareholder perks but does not increase dividends, and 0 otherwise. Table 1 describes the definition of variables used in the logistic and multi-logistic regressions.

## **4. Empirical Results**

### 4.1 Listing requirement change and the likelihood of initiating shareholder perks

Table 2 provides summary statistics for all samples that do not have shareholder perks in year  $t$ , and for sub-samples that initiate (Initiator) and do not initiate (Non\_initiator) shareholder perks in year  $t+1$  during our sample period from 2002 to 2021. The last column reports the difference in means between Initiator and Non\_initiator, with t-statistics for the tests in which the null hypothesis is that the means for Initiator and Non\_Initiator are equal. Of the 37,393 firm-year

observations that do not have shareholder perks in year  $t$ , 900 (2.4%) initiate shareholder perks in year  $t+1$ , and 54.8% of these firms provide the company's own product or services as perks to shareholders. Also, 8% of these initiators have number of shareholders which are close to the border of the minimum requirement to be listed on the first section of the TSE before the TSE restructuring. This ratio is significantly higher than that for Non-initiators, which is 4.4%. There is no statistical difference between the Initiator and Non\_initiator in Cash ratio and Market to Book ratio, whereas Initiator has statistically higher retail ownership, board ownership, advertising expenses, dividend payout (dummy variable if a firm payout or not), illiquidity, and ROA, and lower stock return volatility compared to Non-initiators. 10.2% of our total sample falls in the time period after the requirement change. To remove the effects of extreme outliers, all continuous variables were winsorized at the top and bottom 1%.

\*\*\* Table 2 around here\*\*\*

The regression results are presented in Table 3. We included dummy variables for year and industry (for which observations per industry are more than 200) to control for year-and industry-specific effects. Standard errors are clustered at the firm level and reported in parentheses.

First, we confirm the relationship between the listing requirement and the likelihood of firms initiating shareholder perks tested in Yasutake, Nagata, and Matsuda (2018) using samples from a longer period, from 2002 to 2021. Column (1) of Table 3 shows the result of the baseline model,

where the dependent variable is a binary variable, *Perk\_initiation*, that takes the value of 1 if a firm initiates shareholder perks in the following year, and 0 otherwise. The coefficient on the dummy variable *# shareholders\_border* is 0.535 with statistical significance at the 1% level. Consistent with the result in Yasutake et al. (2018), firms whose number of shareholders is close to the minimum requirement are more likely to initiate shareholder perks.

Column (2) reports the result of the test of our first hypothesis. The coefficient on *Requirement Change* is -0.762 with statistical significance at the 1% level. Consistent with our hypothesis, the likelihood of firms introducing shareholder perks is significantly reduced after the announcement of the new listing requirement for the Prime and Standard sections. Column (3) reports the results of the multinomial logit regression. For firms that introduce shareholder perks, which are their own products, whether the number of shareholders is close to the listing border or not does not seem to matter. For these firms, advertising expenses have a positive and significant effect (coefficient on *ln (Advertising expenses)* is 0.044, with statistical significance at the 1% level), suggesting that they may use shareholder perks for marketing purposes. This result is also consistent with the survey results, where more than 65.8% of the survey respondents agreed or strongly agreed that the purpose of providing perks was “to increase sales (perks as an advertisement of the products and services of the company),” as shown in Table 5 in Yasutake et al. (2018). On the contrary, for firms whose shareholder perks are not their own products, the



coefficient on *# shareholders\_border* is 0.792, with statistical significance at the 1 % level. Consistent with the results in Yasutake et al. (2018), the fact that the number of shareholders is close to the listing border has a strong and significant effect on the likelihood of introducing shareholder perks. For these firms, the coefficient on advertisement expenses is not significant, but the coefficients on ROA and the dividend dummy are significantly positive. These results suggest that firms that introduce shareholder perks, which is their own product, use shareholder perks as a marketing tool, whereas firms that initiate shareholder perks, which is not their own product, spend extra costs to increase the number of shareholders to meet the listing requirement. After the announcement of the new listing requirement, firms become less likely to introduce shareholder perks, which are either the firms' own products or not. It is evident that the listing requirement in terms of the number of shareholders was one of the most important motivations for firms to initiate shareholder perks in Japan.

\*\*\* Table 3 around here\*\*\*

#### 4.2 Motivation for firms to suspend/continue shareholder perks

Next, we examine factors that affect firms' decisions to continue or suspend shareholder perks. The survey results reported in Yasutake et al. (2018) suggest that firms provide shareholder perks to increase the number of shareholders and to make them hold the shares for the long term. While the firms that provide perks that are not their own products seem to be motivated to initiate perks to meet the listing requirements, firms that provide firms' own products as shareholder perks

possibly expect some marketing effects. In addition, an increasing number of firms provide additional perks to shareholders who hold the shares for a long period. We predict that firms that provide their own products for marketing purposes, and/or firms that provide additional perks for those who hold the shares for a long term are motivated to continue providing the perks. The change in the listing requirement should also have an important effect on firms' decisions of suspending perks. Firms have lost motivation to continue perks if meeting the listing requirement was the firms' purpose of introducing shareholder perks.

Table 4 provides summary statistics for all samples that have shareholder perks in year  $t$ , and for sub-samples that suspend and continue to provide shareholder perks in year  $t+1$  during our sample period from 2002 to 2021. The last columns report the difference in means between firms that suspend and continue shareholder perks, with  $t$ -statistics for the tests in which the null hypothesis is that the means for the two group of firms are equal. Of the 16,393 firm-year observations that have shareholder perks in year  $t$ , 686 (4.2%) suspend shareholder perks in year  $t+1$ . Among those who suspend, 32.9% provide perks that are their own products or services, while 72.4% of observations that continue perks provide the company's own product or services as perks to shareholders. The difference is statistically significant at the 1% level. Also, 10.2% of observations that suspend provide additional perks for long term holders, while 17.1% of those continue shareholder perks provide additional perks for long term holders. 29.4% of those suspend

perks increased dividend at the same time, while 37.2% of those continued increased dividend in year t+1. Firms that suspend perks have higher retail ownership, higher board ownership, lower percentage of dividend payers, higher cash ratio, better liquidity, higher stock return volatility, higher market to book ratio, and lower ROA. To remove the effects of extreme outliers, all continuous variables were winsorized at the top and bottom 1%.

\*\*\* Table 4 around here\*\*\*

Table 5 reports the results of the logistic regressions, where the dependent variable is a binary variable, *Perk\_Suspend*, that takes the value of 1 if a firm suspends shareholder perks in the following year, and 0 otherwise. Column (1) of Table 5 shows that the coefficient on *own product* is negative (-2.061) and statistically significant at the 1 % level, consistent with the hypothesis that firms who provide their own products as shareholder perks are less likely to suspend shareholder perks. Column (2) reports that the coefficient on *long-term bonus* is negative (-0.699) and significant at the 1% level, consistent with the hypothesis that firms that have additional shareholder perks for long-term shareholders are less likely to suspend the shareholder perks. As for the impact of the change in the requirement change, Column (3) shows that the coefficient on *Requirement Change* is 0.236, with 5% statistical significance, suggesting the listing requirement change has a significant effect on firms' decision to suspend shareholder perks.

Column (4) reports the results of the multinomial logit regressions, where the dependent

variable is a dummy variable that takes the value of 1 if a firm suspends shareholder perks and increases cash dividends in the following year, 2 if a firm suspends shareholder perks but does not increase dividends, and 0 otherwise. Of the 686 firms that suspend perks in year  $t+1$ , 202 (29.4%, as shown in Table 4) increased dividend at the same time of suspension, while the rest of 484 firms (70.6%) suspended perks without increasing dividend. The coefficient on *Dividend dummy* for firms that suspend with dividend increase is 1.739 and statistically significant at the 5% level, while that for firms that suspend without dividend increase is -1.214 with statistical significance at the 1% level. Also, the coefficient on ROA is 4.861 for firms that suspend perks with dividend increase, whereas that for firms that suspend without dividend increase is -4.349, both with statistical significance at the 1 % level. These results suggest that firms with positive dividend payout and strong financial performance are more likely to suspend shareholder perks and increase dividends at the same time, while firms that have weak financial performance, with no dividend payout, are more likely to just suspend perks without dividend increases. The coefficient on *Requirement Change* is statistically significantly positive, 0.297, with 5% significance level, only for those firms that suspend perks without dividend increase. This result imply that those firms that had shareholder perks merely to meet the listing requirement are more likely to suspend perks without increasing dividend after the restructuring of the TSE. For those firms that suspend shareholder perks and increase dividend, especially those who have strong financial performance,

on the other hand, probably do so for strategic reasons, thereby not influenced by the change in the requirement in terms of the number of shareholders.

Overall, our results highlight the possibility that firms initiate, continue, or suspend shareholder perks with different motivations. It seems that many firms used to initiate shareholder perks to increase the number of shareholders which is one of the listing requirements of TSE. As firms are no longer required to maintain large size of shareholders to be listed on TSE, less firms would initiate or continue offering perks merely to meet this listing requirement. Some firms, even before the restructuring, strategically suspend shareholder perks and replace it with dividend increase. There are, however, firms that still initiate or continue providing shareholder perks, especially those that provide their own products and services. These firms seem to strategically use shareholder perks as a marketing tool and/or a mean of investor relations activity, such as to communicate about their company, products and services. More firms may also provide additional perks for long term shareholders, to maintain retail shareholders as long term holders.

\*\*\* Table 5 around here\*\*\*

## **5. Conclusion**

The variety of shareholder perks, unlike cash dividends, complicates the understanding of their purpose and effectiveness. This study uncovers, to some extent, Japanese companies' multiple purposes of providing shareholder perks and factors that determine firms' decision to

initiate, continue or suspend providing shareholder perks. Our empirical results indicate that there are different motivations among firms to provide or continue shareholder perks, and suggest that seemingly irrational corporate practice actually reflects strategic choice of each company. The listing requirement, in terms of the number of shareholder perks, has been one of the most important motivations for Japanese firms to initiate and continue shareholder perks until the recent restructuring of the TSE. After the TSE market restructuring, when firms are no longer required to maintain a large number of shareholders, fewer firms introduce and/or continue shareholder perks. On the other hand, majority of firms still continue shareholder perks. The tendency to continue perks is especially stronger when shareholder perks have potential marketing effects and/or shareholder perks are designed to reward long-term shareholders.

Although firms are no longer required by the listing rules to maintain a large number of shareholders, there still exist motivations for firms to increase and/or retain a large number of shareholders by taking advantage of the nature of shareholder perks that favor small retail investors. Firms could enjoy the benefit of larger shareholder base, which itself could positively affect firm value by lowering the cost of capital, as suggested in Merton (1987) and evidenced in Karpoff et al. (2021). Yasutake et al. (2018) report that companies use shareholder perks as one of the important IR activities, which is effective in establishing or strengthening good relationships with investors and promoting a better understanding of the company by its shareholders. For example,

invitation to a corporate's site visit is a popular form of shareholder perks, where firms can directly communicate with their shareholders while showing them the company's actual business site.<sup>13</sup> Shareholder perks seem to function as an important channel for Japanese companies to reach out to potential retail investors and also to enhance the relationship with individual shareholders. For institutional investors, on the other hand, non-cash gifts seem to be not only worthless but also troublesome due to tax and transaction costs.<sup>14</sup> However, the unpublished results of our survey show that institutional investors rarely express opposition to shareholder perks. Only 5.9% of the firms with shareholder perks report that institutional shareholders request firms to terminate shareholder perks. The result that institutional investors are not vocal about shareholder perks imply that they are aware of the benefit of shareholder perks that outweigh the costs in total, such as large shareholder base, investor recognition, better investor relations, liquidity and lower cost of capital. Although we do not advocate that all company should have shareholder perks, seemingly irrational corporate practice may actually be as a result of a rational choice of firms that are beneficial overall.

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<sup>13</sup> The LVMH, a French multinational holding company, invites the members of its Shareholders' Club "to the company's exceptional sites such as Hennessy's centuries' old cellars and crayères at Veuve Clicquot."

<sup>14</sup> They can sell some of the shareholder perks in the market, but the proceeds must be reported as miscellaneous income and taxed when distributed to their shareholders.

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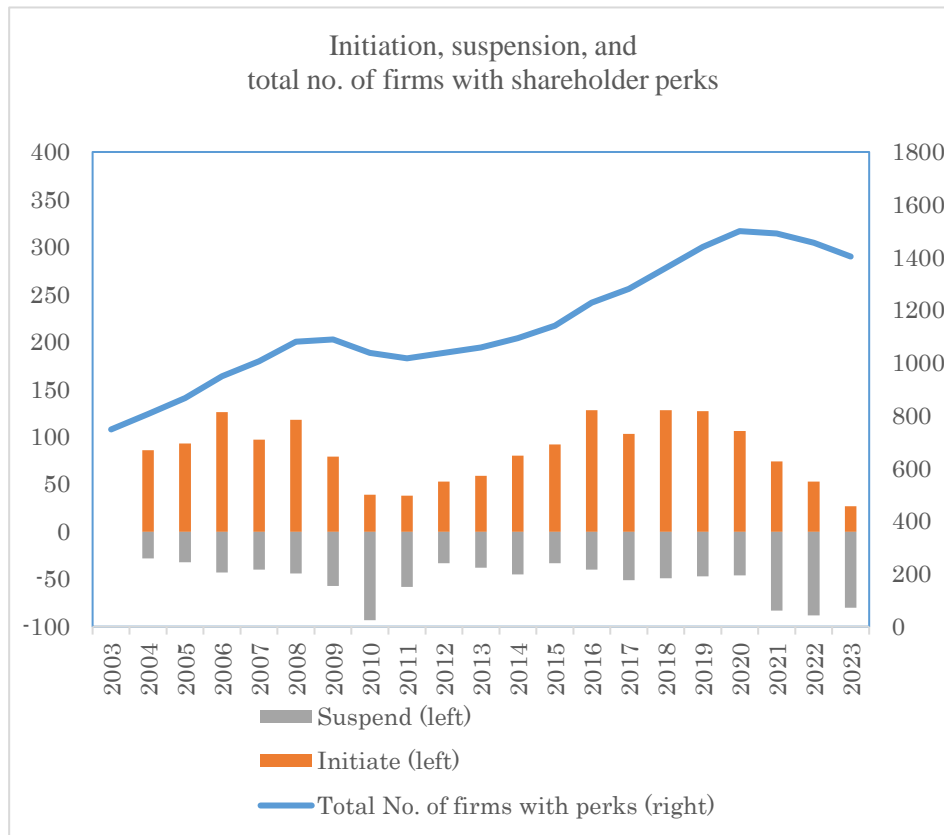


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**Figure 1.** Initiation, suspension, and total number of firms with shareholder perk programs.

This figure shows the number of firms that initiate and suspend the shareholder perks (on the left axis) and the total number of firms with shareholder perks (on the right axis). The data is based on the *Kabunushi Yutai Guide* (Daiwa Investor Relations) for 2003 to 2013, and the *Shitte Tokusuru Kabunushi Yutai* (Nomura Investor Relations), for 2013 to 2023.

**Table 1. Definitions of variables used in empirical analyses**

Variable	Definition
Perk	A binary variable that takes the value of 1 if a firm provide shareholder perks to its shareholders, and 0 otherwise.
# shareholders _border	A binary variable that takes the value of 1 if a firm's number of shareholders is greater than 1900 and less than 2,300, and 0 otherwise.
Own products	A binary variable that takes the value of 1 if the types of shareholder perks include the firm's own product, and 0 otherwise.
Long-term bonus	A binary variable that takes the value of 1 if the additional shareholder perks are offered to shareholders who hold the stock for a long term (defined by each firm), and 0 otherwise.
Requirement change	A binary variable that takes the value of 1 if the fiscal year is 2020 or later, and 0 otherwise.
Dividend increase	A binary variable that takes the value of 1 if a firm increase dividend payout in year t+1, and 0 otherwise.
% Retail ownership	The percentage of shares owned by retail shareholders.
% Board ownership	The percentage of shares owned by the board members.
ln(Advertising expenses)	Natural logarithm of the advertising expenses.
Dividend dummy	A binary variable that takes the value of 1 if the annual dividend is greater than 0, and 0 otherwise.
Cash	The ratio of cash to total asset.
ln(Illiquidity)	Natural logarithm of the Amihud's (2002) illiquidity measure of relative price impact, which is calculated as the ratio of absolute value of daily return over daily trade value, averaged over year t. We limit the sample to those firm-year observations with at least 200 days of data in a given year.
Stock return volatility	The standard deviation of the daily return for fiscal year t-1.
Market to Book ratio	The ratio of book value of equity over market value of equity as of the fiscal year-end t-1.
ROA	Ordinary income over total assets as of the end fiscal year t-1

**Table 2. Summary Statistics for samples that do not have shareholder perks in year****t**

This table reports the summary statistics for samples that do not have shareholder perks in fiscal year t. The first column reports the mean for all samples. The second column reports the mean for Initiators, which are subsamples that initiate shareholder perks in year t+1 (for samples with fiscal year ending between January to August, or t+2 otherwise). The third column reports the mean for Non\_initiators, which are subsamples that do not initiate shareholder perks in year t+1. Firms in the financial industries are excluded. The last column reports the difference in means between Initiator and Non\_initiator, with t-statistics for the tests in which the null hypothesis is that the means for Initiator and Non\_Initiator are equal. \*\*\*, \*\*, and \* denote a significant difference at the 1%, 5%, and 10% levels, respectively.

	All	Initiator	Non_initiator	Difference	t-test	
<i>Perk_initiation</i>	0.024	1.000	0			
<i>Own products</i>	0.013	0.548	0			
<i>#shareholders_border</i>	0.045	0.080	0.044	-0.036	-5.06	***
<i>Requirement change</i>	0.102	0.051	0.103	0.052	5.12	***
<i>% Retail ownership</i>	0.422	0.451	0.421	-0.030	-4.12	***
<i>% Board ownership</i>	0.073	0.108	0.072	-0.037	-8.73	***
<i>ln(Advertising expenses)</i>	1.798	2.385	1.784	-0.601	-6.08	***
<i>Dividend dummy</i>	0.822	0.864	0.821	-0.043	-3.34	***
<i>Cash ratio</i>	0.187	0.191	0.186	-0.005	-0.91	
<i>ln(Illiquidity)</i>	-2.662	-2.384	-2.669	-0.285	-3.11	**
<i>Stock return volatility</i>	2.773	2.629	2.777	0.148	3.59	***
<i>Market to Book ratio</i>	1.517	1.626	1.514	-0.112	-1.73	
<i>ROA</i>	0.046	0.059	0.045	-0.013	-5.84	***
N	37,393	900	36,493			

**Table 3. Results of the logistic regressions for initiation of shareholder perks**

This table reports the results for logistic and multi-nominal logistic regression for initiation of shareholder perks among firms that do not have shareholder perks. Dependent variable for logistic regressions is a binary variables that takes the value of 1 if a firm initiate shareholder perks in the following year, and 0 otherwise. Dependent variable for multi-nominal logistic regressions takes the value of 1 if a firm initiate shareholder perks that include the firm's own product in the following year, 2 if a firm initiate shareholder perks that does not include the firm's own product in the following year, and 0 otherwise. Robust standard errors are reported in parentheses.

	(1)	(2)	(3) Multi-nominal logistic regression	
	Perk_initiate	Perk_initiate	Initiate_own product	Initiate_Not own product
<i># sharehodlers_border</i>	0.535*** (0.138)	0.547*** (0.138)	0.185 (0.247)	0.792*** (0.164)
<i>Requirement change</i>		-0.762*** (0.158)	-0.662*** (0.200)	-0.929*** (0.256)
<i>% Retail ownership</i>	0.036 (0.254)	0.261 (0.252)	0.265 (0.345)	0.135 (0.364)
<i>% Board ownership</i>	1.275*** (0.352)	1.010*** (0.354)	1.345*** (0.460)	0.708 (0.523)
<i>ln(Advertising expenses)</i>	0.057*** (0.014)	0.038*** (0.013)	0.044** (0.017)	0.022 (0.02)
<i>Dividend dummy</i>	0.135 (0.128)	0.114 (0.128)	-0.189 (0.170)	0.575*** (0.205)
<i>Cash ratio</i>	-1.031*** (0.323)	-0.541* (0.304)	-0.988** (0.408)	-0.141 (0.435)
<i>ln(Illiquidity)</i>	0.067*** (0.02)	0.035* (0.018)	-0.05** (0.024)	0.140*** (0.026)
<i>Stock return volatility</i>	-0.086** (0.042)	-0.163*** (0.04)	-0.146*** (0.055)	-0.170*** (0.059)
<i>Market to Book ratio</i>	0.002 (0.022)	0.022 (0.021)	0.036 (0.024)	-0.037 (0.035)
<i>ROA</i>	2.149*** (0.739)	1.930*** (0.693)	0.649 (0.842)	4.404*** (1.101)
<i>Constant</i>	-4.133*** (0.345)	-3.844*** (0.308)	-4.460*** (0.420)	-4.764*** (0.461)
Year indicator variable	Yes	No	No	
Industry indicator variable	Yes	Yes	Yes	

Observations	37,398	37,398	37,398
Pseudo R-squared	0.065	0.047	0.063

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**Table 4. Summary Statistics for samples that have shareholder perks in year t**

This table reports the summary statistics for samples that have shareholder perks in fiscal year t. Firms that initiate shareholder perks in year t and firms that suspend shareholder perks and delisted in year t+1 are excluded from the sample. The first column reports the mean for all samples. The second column reports the mean for subsamples that suspend shareholder perks in year t+1 (for samples with fiscal year ending between January to August, or t+2 otherwise). The third column reports the mean for subsamples that continue to offer shareholder perks in year t+1. Firms in the financial industries are excluded. The last column reports the difference in means between the subsamples that suspend and continue the shareholder perks, with t-statistics for the tests in which the null hypothesis is that the means for subsamples that suspend and continue are equal. \*\*\*, \*\*, and \* denote a significant difference at the 1%, 5%, and 10% levels, respectively.

	Firms with					
	perks	Suspend	Continue	diff	t-test	
<i>Perk_suspend</i>	0.042	1.000	0.000			
<i>Own products</i>	0.708	0.329	0.724	0.395	22.59	***
<i>Long term bonus</i>	0.168	0.102	0.171	0.069	4.74	***
<i>Requirement change</i>	0.127	0.156	0.126	-0.030	-2.34	*
<i>Dividend increase</i>	0.369	0.294	0.372	0.078	4.14	***
<i>% Retail ownership</i>	0.436	0.460	0.435	-0.025	-3.17	**
<i>% Board ownership</i>	0.088	0.099	0.088	-0.012	-2.37	*
<i>ln(Advertising expenses)</i>	3.013	2.835	3.021	0.185	1.3	
<i>Dividend dummy</i>	0.892	0.762	0.898	0.136	11.28	***
<i>Cash ratio</i>	0.171	0.189	0.170	-0.019	-3.87	***
<i>ln(Illiquidity)</i>	-2.903	-2.594	-2.916	-0.322	-3.31	***
<i>Stock return volatility</i>	2.169	2.560	2.152	-0.407	-10.45	***
<i>Market to Book ratio</i>	1.568	1.774	1.559	-0.215	-3.35	**
<i>ROA</i>	0.054	0.044	0.055	0.011	5.11	***
N	16,393	686	15,707			

**Table 5. Results of the logistic regressions for suspension of shareholder perks**

Dependent variable for logistic regressions is a binary variables that takes the value of 1 if a firm suspend shareholder perks in the following year, and 0 otherwise. Dependent variable for multinomial logistic regressions takes the value of 1 if a firm suspend shareholder perks and increase dividend in the following year, 2 if a firm suspend shareholder perks without increasing dividend in the following year, and 0 otherwise. Robust standard errors are reported in parentheses.

Dependent variable	(1) Suspend	(2) Suspend	(3) Suspend	(4) suspend_with_ dividend_ increase	suspend_without_ dividend_ increase
<i>Own products</i>	-2.061*** (0.124)		-2.01*** (0.118)	-1.863*** (0.210)	-2.088*** (0.138)
<i>Long term bonus</i>		-0.676*** (0.133)	-0.699*** (0.141)	-0.562** (0.223)	-0.779*** (0.177)
<i>Requirement change</i>			0.236** (0.118)	0.145 (0.219)	0.297** (0.137)
<i>% Retail ownership</i>	0.209 (0.295)	0.08 (0.285)	0.303 (0.290)	0.125 (0.604)	0.442 (0.332)
<i>% Board ownership</i>	-0.152 (0.455)	-0.363 (0.426)	-0.205 (0.450)	-0.144 (0.951)	-0.240 (0.499)
<i>ln(Advertising expenses)</i>	0.02 (0.016)	-0.015 (0.014)	0.003 (0.015)	-0.011 (0.024)	0.009 (0.018)
<i>Dividend dummy</i>	-0.987*** (0.146)	-0.663*** (0.130)	-0.965*** (0.143)	1.739** (0.710)	-1.214*** (0.160)
<i>Cash ratio</i>	-0.234 (0.421)	0.393 (0.375)	-0.118 (0.406)	-0.281 (0.721)	-0.156 (0.469)
<i>ln(Illiquidity)</i>	-0.039 (0.026)	0.014 (0.022)	-0.065*** (0.024)	-0.194*** (0.043)	-0.012 (0.028)
<i>Stock return volatility</i>	0.141*** (0.046)	0.189*** (0.041)	0.122*** (0.043)	0.111 (0.088)	0.119** (0.049)
<i>Market to Book ratio</i>	0.024 (0.026)	0.008 (0.026)	0.018 (0.025)	-0.093 (0.058)	0.0317 (0.028)
<i>ROA</i>	-2.361*** (0.873)	-1.010 (0.824)	-2.411*** (0.865)	4.861*** (1.586)	-4.349*** (1.015)
<i>Constant</i>	-3.124*** (0.431)	-3.787*** (0.397)	-2.155*** (0.294)	-6.977*** (0.854)	-1.999*** (0.323)
Year indicator variable	Yes	Yes	No	No	
Industry dummy	Yes	Yes	Yes	Yes	
Observations	16,393	16,393	16,393	16,393	
Pseudo R-squared	0.131	0.049	0.126	0.138	