

Toyota’s Governance Reform and the Unwinding of Cross-Shareholdings

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- **Pressure from Activist Investors:** Toyota is facing pressure from activist investors to improve its corporate governance by unwinding cross-shareholdings.
- **Cross-shareholdings in Japan:** Historically, cross-shareholdings have helped maintain long term, mutual relationships between companies, secure capital, and protect firms from hostile takeovers.
- **Weak Investor Sentiment:** Banks and insurers are expected to unwind about \$19 billion worth of its shares, which may increase free float and stock liquidity.
- **Decline in Toyota Stock:** Anticipated share sales and institutional selling pressure have contributed to a recent decline in Toyota’s stock price.

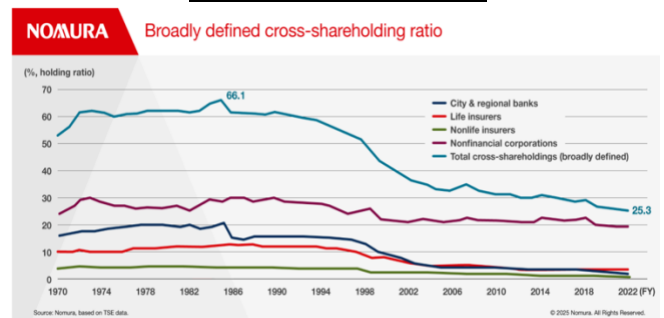
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Earlier this week, Toyota Motor Corporation faced pressure from activist investors to improve corporate governance by unwinding its cross-shareholdings. Activist investors are shareholders who use their equity stakes to influence management decisions, including corporate strategy or governance. Their primary goal is to prevent value-destructive managerial actions and enhance shareholder value. Although uncommon in Western countries, cross-shareholdings have historically been prevalent in Japan, supporting long-term business relationships, stable capital access, and protection against hostile takeover. This system emerged in the late 1960s and reached its peak during the 1980s. However, following the burst of Japan’s economic bubble in the early 1990s, cross-shareholdings have gradually declined. Despite their benefits, cross-shareholdings have notable disadvantages: they may tie up capital inefficiently, weaken management accountability by shielding executives from shareholder pressures, foster insider control, and distort the true ownership structure through “double counting.” As a result, in recent years, companies maintaining cross-shareholding systems (known as the keiretsu system) have increasingly faced demands to

improve corporate governance and unwind these holdings. A report published on March 9 renewed attention to this issue, highlighting the growing investor pressure on Japanese firms for improved corporate governance.

Figure 1: Gradual decline in cross-shareholdings ratio



Source: Nomura Connects. “The Era of Disappearing Shares.”

Toyota and Nintendo are not exceptions to this trend. In the case of Toyota Motor Corporation, banks and insurers are expected to unwind \$19 billion worth of its shares, accounting for about 7% of the company’s market capitalization. This move demonstrates Toyota’s commitment to corporate governance reform. The divestment is expected to increase free float, the shares available to public investors, thereby improving liquidity. Analysts expect the plan to increase return on equity (ROE), driven by

share buybacks and improved capital efficiency. Toyota's ROE is 13.3% (as of March 15) and is targeted to reach 20% by 2030.

Despite the long-term governance benefits, Toyota's stock price has come under pressure. This reflects global demand uncertainty, rising costs, FX volatility, and anticipated near-term share supply. Governance uncertainty and institutional selling have contributed to a ~15% decline in Toyota's stock price. As of March 2026, Toyota's TTM P/E ranges from 9-13, well below the global auto industry average of ~18-19. Historically, its average P/E ratio has been around 11, indicating a persistent discount relative to the industry. This valuation gap likely reflects investor concerns over capital efficiency and corporate governance. Consequently, investors have advocated for unwinding cross-shareholdings, greater transparency, and improved capital allocation.

Figure 2: Toyota stock declined due to institutional selling pressure



Source: TradingView. "Toyota Motor Corporation (TM)"

Toyota's governance reforms are expected to begin as early as this year, although the exact timing has not yet been determined. To minimize potential market disruption, the divestment of shares is likely to occur gradually rather than a sudden, large-scale sale. However, the structure and timeline of the divestment remain undisclosed.

Source

<https://www.reuters.com/sustainability/sustainable-finance-reporting/activist-threat-pushes-japanese-companies-unwind-cross-shareholdings-2026-03-09/>
<https://corporatefinanceinstitute.com/resources/management/cross-holding/>
<https://www.nomuraconnects.com/focused-thinking-posts/the-era-of-disappearing-shares/>

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