



US-CROSS-BORDER ACQUISITIONS BY JAPANESE FIRMS LESSONS TO BE LEARNED FROM THE LATE 1980s

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Abstract:

This research analyzes two Japanese acquisition waves to the US, one from the 1980s and the other recent one, still ongoing today. Both acquisition waves are analyzed by using institutionalization theory and management fashion research to explain these trends. For the 1980s, the numbers of articles related to Japanese acquisitions were counted in two of the leading US-newspapers and parallel ties were found to the number of deals. Compared to the 1980s, the public opinion of Americans against Japanese takeovers becomes positive. While many American in the 1980s saw Japanese firms as a threat, nowadays Japanese direct investment is seen in more favorable ways. However, Japanese firms' behavior of acquiring US targets does not seem to have changed since the late 1980s. Furthermore, lately not only the number of the deals but also the amount of payment increased (compared to the data of late 1980s).

Keywords: Us-Cross-Border; Firms; Lessons.

Cite This Article: Ralf Bebenroth, and Fay Chen. (2017). "US-CROSS-BORDER ACQUISITIONS BY JAPANESE FIRMS LESSONS TO BE LEARNED FROM THE LATE 1980s." *International Journal of Engineering Technologies and Management Research*, 4(11), 48-58. DOI: <https://doi.org/10.29121/ijetmr.v4.i11.2017.123>.

1. Introduction

Nowadays, a wave of cross border M&A is visible worldwide (Peng 2008). Also many Japanese firms acquired foreign targets with a record high of 635 cases in the year of 2016. Some of the so called mega deals in the last years include SoftBank's \$22 billion acquisition of Sprint in 2013, Suntory's \$16 billion purchase of bourbon maker Beam (in 2015) and Daikin's \$3.7 billion purchase of Goodman, a US-based air conditioner manufacturer (Kahn 2015).

A similar wave of Japanese M&A to the US was seen in the late 1980s. While the success of an acquisition depends on its successful post-merger integration (PMI), there have been numerous attempts to determine decisive factors for a successful PMI (e.g., Ellis et al. 2009). This research focuses on two factors, the US public opinion and the Japanese business style.

Perceptions of people at targeted countries are important to be considered because they influence the success of acquisitions. To say, negative attitudes against investors could hinder successful takeovers, starting at price negotiations until successful integrations. Therefore, it will be shown to what extent the US-press discusses Japanese acquisitions of US firms. Also, light will be shed on opinion changes of the US public from before the Plaza Agreement (which took place in 1985) until after the Japanese economic bubble period burst in 1989. Moreover, US-American public opinions of recent years will be investigated.

Second factor concerns the business style of Japanese firms. It will be compared to the late 1980s and questioned if there are any managerial differences visible nowadays. To answer these two factors, the authors integrate institutionalization theory (DiMaggio and Powel 1983) and management fashion research (Abrahamson 1991 and 1996).

The following chapters are as follows. Chapter 2 describes Japanese acquisitions over US firms in the 1980s. Chapter 3 discusses US critics against Japanese acquisitions and chapter 4 brings theoretical explanations and bandwagon effects of acquisitions. Chapter 5 discusses external pressures and chapter 6 describes the newspaper investigations. Recent acquisitions trends are discussed in chapter 7 and chapter 8 brings the conclusion.

2. Japanese Acquisitions Over US Firms In The 1980s

Most notable US acquisitions by Japanese firms in the 1980s were Sony Corp.'s \$3.5 billion purchase of Columbia Pictures, and Mitsubishi's \$846 million investment in New York's Rockefeller Center (White, 1990, p. 52). Lash (1991) states in his introduction: "From the acquisition of Rockefeller Center's radio tower' to the purchase of the manicured greens of Pebble Beach golf course, foreign direct investment in the United States has captured the attention and imagination of the U.S. public and its elected officials." He continues to report: "Many Americans do not welcome the current wave of foreign direct investment, despite the stated pro-investment policy of the current administration and past U.S. policy". Business week reported that: "sixty-eight percent of Americans polled rank Japanese economic might as a greater threat to the United States than the Soviet military" (Newsweek, 1989).

Peterson (1990) states a Gallup report (from 1989) that 70% of the American public saw an increased foreign investment in the U.S. as a negative issue. Furthermore, the Gallup report suggested that a huge proportion of Americans saw rather Japan than the United States to become the world's leading economic power and was afraid for Japanese investment. It was a time of fear articulated in the US press, that Japanese firms could overtake corporate America (Zeitlin 2012).

It was common from the US side to opinion about Japanese investments. Metzger and Ginsberg (1989) report about several important lessons of international acquisition management what can be learned by examining the "mistakes of Japanese banks" at takeovers in the United States. According to their investigation, the major Japanese mistakes were that Japanese banker assumed that banking was conducted the same way in the US than in Japan. Japanese also were reported to be overly cautious about their decision making and accused of misunderstandings of local management styles. Metzger and Ginsberg gave advice to better differentiate the US market

more carefully and to staff the operations in US better with local US employees than with Japanese expatriates.

3. US Critics Against Japanese Acquisitions In The 1980s

Before the Plaza Agreement took place in 1985, there were hardly any investments made by Japanese firms to the US. Besides the weak Japanese Yen currency what made investments expensive, to overtake other firms for making profits also were against Japanese mentality (Muramatsu, 2001).

This situation changed with a strengthened Yen after the Plaza agreement. A Gallup report indicated that 70% of the American public saw an increased amount of foreign investment in the U.S. with worry. The Gallup reported that a huge proportion of Americans ‘see Japan, not the United States, as the world's leading economic power’

Directors and Boards (1990) issued a report about Japanese M&A in the US titled: "Japanese Investment in the United States: Its Causes and Consequences." It pointed out: “What started out as a marriage of convenience (Japanese acquisitions to the US) and economic logic has turned into a liaison increasingly marred by distrust on one side of the Pacific and feelings of not being appreciated on the other” (Directors and Boards, excerpt 1990). Other statements were even more severe: “More darkly, the current controversy (in 1989) over foreign investment, specifically Japanese investment, has evoked racial and xenophobic sentiments in America that have explosive potential” (Directors and Boards, excerpt 1990).

It is to say, that the amount of investment by Japanese firms increased in contrast to the time before the Plaza agreement. Adelson (1988) reported: “Japanese investment in the United States has climbed steeply in recent years. Last year (1987, placed by the author) the Japanese spent \$5.9 billion on American acquisitions, twice as much as they spent in 1986. Some backlash was resulted: “Various legislators are unhappy with the Japanese shopping spree, and some American companies have argued that they face unfair competition for acquisitions” (p. 2).

US press criticized the Japanese economic strength of exports as stated by White (1985, 19) “Today, 40 years after the end of World War II, the Japanese are on the move again in one of history's most brilliant commercial offensives, as they go about dismantling American industry. Whether they are still only smart, or have finally learned to be wiser than we, will be tested in the next 10 years. Only then will we know who finally won the war 50 years before.”

US-critics were predominantly raised in a fear that Japanese firms were too strong because of not playing by “American rules”. Japanese firms were not seldom accused of selling products underpriced because of longer but unpaid working hours (in Japan). To put differently, in the 1980s before the Plaza Agreement newspapers reported rather about complains of unfair treatment than the fear of getting taken over by a Japanese firm. This impression of an unfair treatment against Japanese firms was even seen on the own (US) ground. An example is Raftery (1980): “The Japanese argue that it is impractical, if not impossible, for them to purchase United States replacement parts if such parts are not used in the cars they make at home. At the same

time, they have apparently made little if any genuine effort to purchase United States parts for that original Japanese equipment. Obviously, this places United States companies in a "Catch-22" situation, locked out of a market synthetically created by the Japanese" (p. 3).

It was not true; however, that Japanese firms in the late 1980s did not consider any strategic fit as an important criteria. A citation by Adelson in 1988 about Japanese acquisitions to the US supports this argument: "It's purely strategic. Japanese companies are looking for acquisitions that fit with the parent company in Tokyo, to expand their product line and add to their R&D to enhance their market share. This week's acquisitions are very good examples. Their view is much more long-term. You have employees who join companies for the duration of their career. And there is an emphasis on teamwork. The decision-making process is much longer. And a not insubstantial reason is that shareholders have little say. There are practical, cultural and theoretical reasons behind the acquisitions" (p.2).

4. Institutionalization Theory and Bandwagon Effects

The wave of Japanese outbound takeovers to the US (in the late 1980s but also nowadays) can be explained by institutionalization theory. An increase (or decrease) of M&A can be described as an institutionalized "rationalized myth". Institutional theory suggests that institutions function in a rational way, to have efficient means (Meyer and Rowan 1977). However, efficient means can be interpreted in ambiguous terms. Thus, firms may create an appearance to comply on rationality. These phenomena can also be explained by the bandwagon effects. That means certain management practices being institutionalized and generally adopted by other firms can create institutional pressure, known as bandwagon effect for the remaining firms also e.g. to get involved to overtake foreign targets. This may result in an increase of Japanese firms taking over US firms.

DiMaggio and Power (1983) suggest three types of pressures which act on organizations to produce isomorphism and conformity. These pressures can be classified as coercive, mimetic and or as normative pressure. Coercive pressure consists of formal and informal pressures. On one hand, pressure can arise from dependent organizations (Sekiguchi 2012) and on the other hand, it can come from cultural expectations of a society the organization is embedded in. Coercive pressure exists through networks which are well known and strong in Japan. Known as Keiretsu, or corporate groups, firms refer to inter-firm patterns of multiple, overlapping clusters of organizations, which do not always refer to legal entities (Gerlach 1992). That means, coercive pressure results out of networks where firms from the same network that might get stimulated or even forced to overtake foreign firms. That happens e.g. if a supplier receives pressure to be close to a manufacturing firm. For example, when manufacturing firms move their production plants to other countries, suppliers may get forced to follow them in order to continue business relationships to the manufacturer. Mimetic pressure results from uncertainty organizations face. In that, organizations get motivated to imitate other successful firms' strategic decisions. Normative pressure comes from professionalization, to stress on conformity of professional standards.

There are strong institutional pressures Japanese firms are facing to conduct acquisitions because Japanese culture is rather homogeneous in regard to ethnic background and language. There are only 2.2 million registered foreigners what means only roughly 2% of the total population

consists of non-Japanese citizens (Immigration Bureau Japan, 2015). Furthermore, the culture is collectivistic in contrast to Western countries (Oyserman et al 2002). Thus, especially coercive and mimetic pressure can lead Japanese firms to overtake firms in other countries. This collectivistic and homogenous society can lead firms reacting in similar ways also known as management fashion. Management fashion theory states that managements may adopt certain techniques which are not rational (Abrahamson 1991, 1996). Abrahamson defines management fashion as: “the process by which management fashion setters continually redefine both theirs and fashion follower’s collective beliefs about which management techniques lead rational management process” (1996, p. 257). Rationality refers to expectations of managers that their decisions are efficient. Over time, these norms of societal expectations will change and improve. That means, as time goes by, management techniques get replaced repeatedly. To the end, management fashions appear to be of rational choice (Abrahamson 1996).

The concept of management fashion fits very well with the waves of mergers and acquisitions. A high number (or wave) of M&As can occur when firms feel the urgency to conduct acquisitions because e.g. other competitors have done the same before. This fashion is fueled by arguments such as that the Japanese market is matured and that firms therefore have to invest at other countries. Fashion theory covers two types of learning. First, so called real learning theory. In that case a fashion waves declines and a down swing occurs, a positive learning curve. Second, superstitious learning occurs when actions and outcomes are mis-specified. According to Abrahamson and Fairchild (1999) the superstitious learning plays an important role in the upswing, that means at an increase of the waves (e.g. at M&As).

5. External Pressure Factors to the US

As stated, Japanese M&A waves can be explained by theories. However, also three external pressure factors to the US can explain the increase of Japanese takeovers from the 1980s. First, the Plaza Agreement with its strengthened yen currency; second, the US stock market crash from 1987 and; third, the tax increase against Japanese exported products.

The Plaza Agreement in 1985, was done by policymakers of the G-5 countries to encourage an appreciation of the main non-dollar currencies (e.g. the Japanese Yen) against the US-dollar. This measure was taken to persist a rising U.S. trade deficit. The meeting was held at the Plaza Hotel in New York, and the so-called Plaza Agreement resulted in the strengthening of the Japanese Yen. From February 1985 until January 1988, the so called “En-daka” resulted in a strengthened Yen of 53% against the US-dollar. The rise of the yen resulted in measures taken by the Bank of Japan e.g. to lower the interest rates (Milhaupt, 1994).

The stock market crash in 1987 led to an underpricing of US firms. Sterngold (1988) states: “The stocks of several major brokerage firms are trading below their book value, a reflection of the fact that investors perceive Wall Street as a potentially dangerous arena in the wake of last October's stock market crash” (p. 8). Around that time, the following statement seemed to resemble the popular press: "People are jumping with joy that the cheap dollar has made American products more competitive. Well, you can't have a cheap dollar that makes products competitive and then want an expensive dollar when it comes to what overseas investors have to pay to buy American assets. If you want a strong dollar, you better look to the other result. Yes,

you'll have fewer acquisitions by foreigners, but also less American product that is built in this country" (Nevin, 1988, p. 11).

The third pressure resulted out of an increase of import taxes to the United States. Japanese manufacturers were faced with high taxes on their exported products from Japan to the US. Andrews (1988) reports: "Matsushita pulled its Japanese-made personal computers from the United States market last April after only nine months when the United States placed 100 percent tariffs on imported PC's."

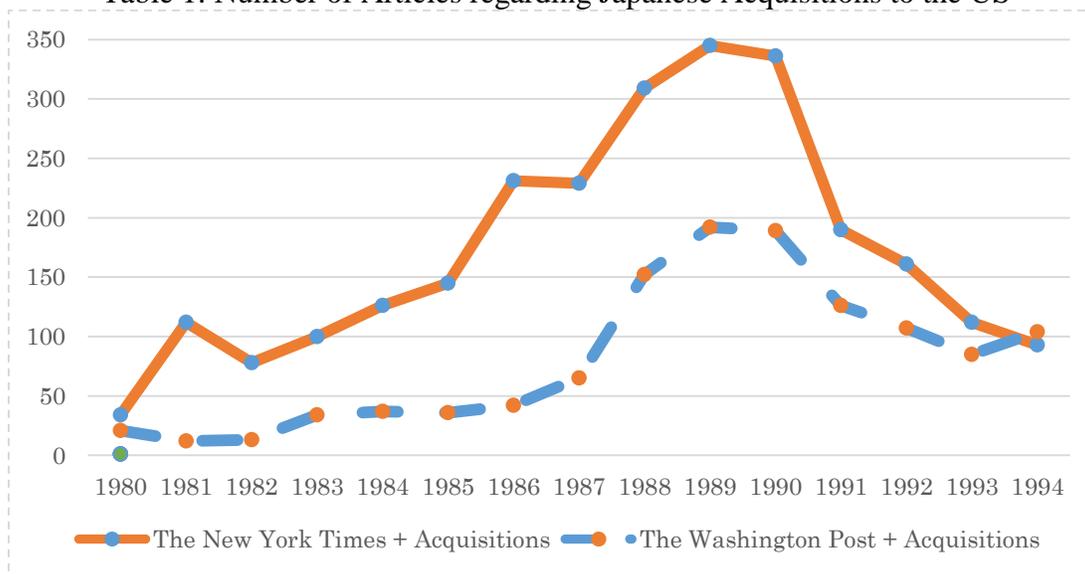
However, Japanese businessmen were said to feel uncomfortable with the idea of overtaking or selling a firm. Reasoning is that a firm in the Japanese sense meant to be a "family" – and one does not buy or sell their family. Milhaupt (2001) argued that the dislike of getting over have served as a substitute to an efficient set of legal rules for M&A. If Japanese firms decided a takeover, it was common to acquire a minority investment to have a "toehold" into a non-public US firm. With this strategy, Japanese headquarters could rely on US managers and were able to extent their networks and to gain valuable experiences. Besides, it was not necessary to attract unwanted publicity (what an outright takeover brings with its announcement (White, 1990).

That means, an institutionalization shift was undertaken. Japanese firms went on to actively overtake foreign targets, many in the US.

6. Newspaper Investigations from 1980 to 1994

The authors took the two US newspapers with the highest publication rates regarding international articles, The New York Times and The Washington Post. Newspaper articles were retrieved by Lexis Nexis Academics database. The study focused on the years starting from 1980 until 1994 where the number of related articles was counted having the key words such as "Japan" and "acquisitions". See table 1 (and table 3 as for the numbers at the attachment).

Table 1: Number of Articles regarding Japanese Acquisitions to the US



Looking at table 1, the picture evolves that at the year of 1980 both newspapers (The New York Times as well as The Washington Post) reported only little on Japanese acquisitions, having fewer than 50 articles that appeared.

After the Plaza agreement in 1985, Japanese firms changed their investment strategy to a more acquisition oriented approach. In other words, until 1985, Japanese firms favored to export their products to the US but after that (1985) bought US firms, land or buildings. Both newspapers have a steep increase in articles discussing acquisitions parallel to its number of events.

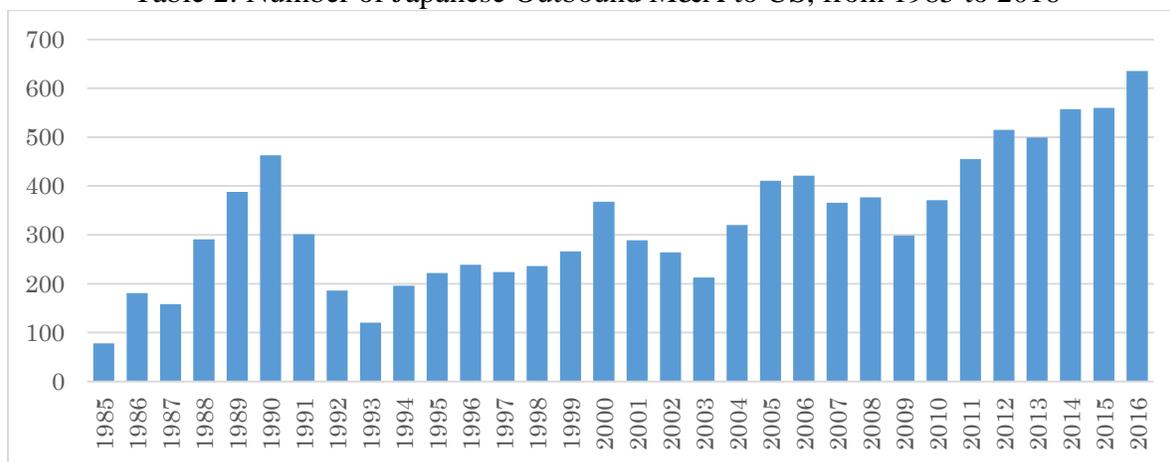
The years 1988 to 1990 marked a high on scores in both newspapers. Japan related acquisitions to the US became a popular topic. Acquisitions in the year of 1989 were 10 times more discussed in The New York Times than in 1980 (from 34 in 1980 to 345 in 1989). However, it is to mention that out of 34 articles, there was only one of them written in a negative way, criticizing Japanese firms. In 1988, out of 309 articles published, there were only 6 articles negatively commenting about Japan. The Washington Post increased its articles about 8.5 times (from 21 to 192) at the same time.

It is to say; however, that in recent year, The New York Times introduced a different reporting system, so that the count of articles is not anymore comparable to the 1980s and 1990s.

7. Recent Acquisition Trends

The number of Japanese M&A shrank after the burst of the Japanese bubble economy in the late 80s / early 90s and with it its overseas acquisitions. Recently however, Japanese firms are once again more active in their overseas acquisitions. In the year of 2016, a record high of 635 transactions was counted (Recof 2017).

Table 2: Number of Japanese Outbound M&A to US, from 1985 to 2016



(Recof Data, 2017, February Issue)

This trend occurs despite a weakened Yen currency of the last several years (Fensom, 2015). There are several reasons for an increasing number of Japanese acquisitions to the US. As already shown at the late 80s, Japanese firms nowadays too have world leading technologies,

attracted to sell all over the world and not just in their home market. A JP Morgan official in 2017 states: "...Japanese corporations must acquire market share by entering new markets or expanding into new growth areas. Relying purely on in-house R&D and organic growth from the domestic market alone is clearly insufficient to achieve growth objectives" (Lee, 2017).

One of the differences today against the late 1980s is that Japanese firms face a shrinking domestic market due to their aging population. Even with somehow different reasons, the fact that is similar to the late 1980s is that Japanese firms again acquire US firms more heavily. Nowadays, many Japanese MNEs enjoy high profits in the last years and are cash rich. Furthermore, many firms are able to take advantage of the inexpensive cost of capital as banks are supporting many acquisitions with very low rates of interest (Fensom, 2015).

Firms at the late 1980s were similarly cash rich and received loans inexpensive from their house banks. Also many Japanese firms nowadays (as they did in the 1980s) intend to grow in size, consider turnover as an important yardstick to measure their performance. As growth can hardly be reached domestically, firms rely on growth e.g. by overtaking foreign firms. All these factors appear to be very similar to the late 1980s.

Also Japanese investment firms and banks become again more active in the US-Japanese acquisition business. Morita, President of Americas, Nomura Securities is cited as: "We will have to expand in the Americas once again as Japanese companies are increasingly doing global M&A in the region, and the region will generate the biggest fees" (Japan Times, 2017).

Meanwhile, some interviews were conducted with representatives of Suntory-Beam and Brooks Grain in New Orleans in July 2016 to gather information of how American managers perceive recent Japanese investments.

Results are the following: American managers now appreciate Japanese investment much more than they did previously in the late 1980s. Among the interviewed US managers of Beam, there was no dislike articulated against Japanese takeovers. However, the understanding of the interviewed US managers was that Japanese headquarters should not interfere with "their" business because the "US business is done differently in the USA than in Japan" (interviewee of Beam, 2016). Other interviewed managers pointed out that it is necessary to operate at best independently (from the Japanese headquarters). Also, American managers commented that Japanese managers from headquarters would be (still nowadays) difficult to integrate into the business in the US. That means, American managers consider Japanese acquirer rather as a financial support, such as portfolio investors than strategic investors. To create synergy for Japanese headquarters; however, should become a rather difficult task.

8. Conclusion

In Japan there is hope that recent Japanese acquisitions over US targets do not end again in failure as most of them did after Plaza Agreement took place in 1985.

To sum up, the paper explained the merger wave using institutionalization theory and management fashion theory. It was seen that the number of the deals were parallel to the number of related articles in two of the leading US newspapers. Furthermore, it was shown that the attitude of Americans in regard to Japanese investments to the US have changed to positive.

Nowadays, Japanese acquisitions to the US are much more welcomed than back in the late 1980s. However, Americans see Japanese investment rather as a financial support but not to intend to share their knowledge with their new headquarters at Japan. Also, Japanese management behavior does not seem to have changed substantially. In that, Japanese firms still (and again) want to sell their world leading technology to the US and want to grow in turnover, the same as in the late 1980s. It is to hope that recent acquisitions become more successful than the ones in the late 1980s.

Acknowledgement

The first author would like to extend his gratitude to Rokko Dai Foundation for the scholarship and to East Asian Legal Studies of Harvard University for spending three months sabbatical there and to receive excellent research infrastructure. Especially, thanks go to the director Prof. William Alford for his kindness and for stimulating talks, Prof. Mark Ramseyer for invitation and to Mike Zeisser, Emma Johnson and Vanessa Smith for their kindness, time and efforts.

Attachment

Table 3: Search terms consisted of “Japan”, “USA” and “Acquisition”

Years	Newspaper Search	
	The New York Times	The Washington Post
1980	34	21
1981	112	12
1982	78	13
1983	100	34
1984	126	37
1985	145	36
1986	231	42
1987	229	65
1988	309	152
1989	345	192
1990	336	189
1991	190	126
1992	161	107
1993	112	85
1994	93	104
2015	111	92

Data retrieved from Lexis Nexis Academics, August 2016

(Articles with moderate similarity were sorted out)

Interviews conducted by the first author in June 2016, New Orleans Brian Golden, Beam Suntory, Global Sourcing Director Commodities and Barrels Greg Beck, Grain Division, Vice President Erica Fields, Brooks Grain, President

¹ The reporting at the newspapers on Japanese investment in the U.S. changed considerably in the second half of the 1980 as Japanese companies increased their overseas production capacity and their distribution networks mainly through so called "greenfield" investments instead of acquisitions (Chira, 1988).

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