The Japanese-Style M&A

– A View from within the Japanese Business Scene –

By Nagamori Shigenobu

SINCE the commotion surrounding the acquisition of Nippon Broadcasting System by livedoor in the spring of 2005, phrases such as merger and acquisitions (M&As) and takeover bids (TOBs) have quickly become familiar in Japan. Last summer, some companies announced that they had undertaken management buyouts (MBOs) that included withdrawing from the stock market. The large scale share acquisitions by a fund headed by financier Murakami Yoshiaki and Rakuten created headlines in the fall. Debates about takeover defense strategies were seen in all media on a daily basis.

Nidec Corporation has been proactively engaged in friendly takeovers for more than 20 years, and each case entails the restructuring of the acquired companies. Based on our belief that employment is the greatest social contribution, Nidec has completely avoided the personnel cuts that are so common in the West. Instead, we have followed the policy of rebuilding companies by improving employees' morale. In this article, I would like to talk about my experience based on the acquisition of 23 companies.

I can characterize Nidec's M&A policy with one word: speed. The oil shock of 1973 was a turning point for the Japanese economy. High economic growth slowed down to low growth. Under such business circumstances, Nidec was established by just four people, and we believed that if Nidec was going to grow alongside the big Japanese corporations, we would have to make full use of M&As to speed up the pace of growth. By way of example, when Nidec was listed on the Second Section of the Osaka Securities Exchange in 1988, our next goals were to achieve consolidated sales of over ¥100 billion within 10 years and to be listed on the First Section of the Tokyo Stock Exchange. We achieved both of these objectives, but it would have been impossible if we had not relied on M&As but depended on our single growth strength. M&As also offer an advantage in that the acquiring companies can gain new technical expertise and markets from acquired company. To build excellent technologies from scratch can take 10 years, and market development also requires extraordinary amounts of time. Making good use of M&As accelerates corporate growth, enhance the speed of technology acquisition, and quicken the pace of market development.

Photo : Nidec Corporation

Spindle motors for HDD, one of Nidec's core business field of drive technology products

Because of this strategy, it is only natural that our M&As targets are companies that possess technologies relating to our core business field of drive technology products (everything that spins and moves). We pay particular attention to the firms' technological strengths when we acquire them. If we need press or micro machining technologies to manufacture small high precision motors, we look for a company that possesses high-level technologies in that field.

In Japan, though, only unprofitable companies will be available for sale. This means, as I pointed out earlier, that all M&As made by Nidec will be accompanied by a restructuring of the purchased company. I place the greatest importance on having absolutely no staff layoffs, on raising the consciousness of employees, and motivating them. In my experience, if we exclude geniuses for a moment, there is no more than a five-fold difference between individual levels of innate ability. However, there can be a more than 100-fold difference in the level of mental attitude. That is why improving the conscious outlook of employees leads to an improvement in the company overall.

Let me take the case of Sankyo Seiki Mfg. Ltd.,[1] which we acquired in October 2003. Sankyo Seiki was a prestigious company in Nagano Prefecture, but prior to our share acquisition it had recorded losses of more than ¥10 billion for three straight years. It was in its death throes, somehow holding off bankruptcy. The employees were feeling down, unhappy and anxious as well. Many of them called in sick everyday, the workplace was dirty, sales staff were not visiting their clients often enough, and procurement staff were being wined and dined by their suppliers. Nobody cared about a screw on the floor and let it be. That is what the company had become.

On our first visit after having become a majority shareholder, we evaluated the situation on the basis of our own 3Q6S assessment index[2] (see Fig. 1) and on attendance rate. The 3Q6S score was 5 points, and the attendance rate was less than 90%. This means that 100 of every 1000 staff were absent at any one time, so if you want-

Notes : 1) Now Nidec Sankyo Corporation.

2) 3Q refers to "quality workers, quality company and quality products," while 6S means "*Seiri* (Well-organized), *Seiton* (Putting in order), *Seiketsu* (Neatness), *Seisoh* (Cleaning), *Sahoh* (Manners) and *Shitsuke* (Disciplined)."

Figure 1
3Q6S Assessment Index

Source : Nidec Corporation

ed to do work that required 1000 people, it would be necessary to hire another 100. The extra 100 staff was an excess cost that led to poor financial performance. To correct this, we got to work on improving the attitude of employees. I brought all the employees together and said: "For the next year, we want everyone to be at work on their scheduled work days, without any absences. We want you to keep the workplace clean. If you follow these steps, the company will definitely turn around. I am not asking you to trust me without return, but for one year, please take my words! If the company has still not become profitable this time next year, I will not mind if you kick me or spit on me." For the next several months I had lunch with the employees and repeated my basic policies. It is said that all illness starts in the mind; and for an illness to be cured it is essential that the patient also believes, "I will get better!" So, in the same way that a doctor repeatedly tells his patients that they will overcome their illnesses, I as top manager kept on repeating that the company would come back to life, putting all of my energy into improving the flagging confidence of employees. Improvements could be seen on a daily basis, with the 3Q6S scores gradually rising and rates of absenteeism falling. The employees' malaise took a turn for the better, and before the year was up the 3Q6S score stood at 80 points, with absenteeism falling to at almost zero. In the year to March 2005, the company recorded its highest profit in more than 60 years of operations. This was only one-and-a-half years since Nidec became a majority shareholder.

In this way, when we turned around the poor performance situation, and the synergies between the acquired company and the acquiring company came into play, we could say that the M&A action had been a success in every sense of the word. So, how are M&As in Japan faring today? I get the feeling that it has become a money game, with M&As having strayed from the original purpose. Last spring, livedoor used a legal loophole of off-hours trading and did not clearly explain the intent behind its acquisition plan to the employees of Nippon Broadcasting System. These actions caused trouble because the plan looked like a hostile takeover, and gave TOBs a bad name in Japan. That disturbance put back the acceptance of TOBs by five years in Japan. I have always viewed TOBs as just another M&A strategy. However, I am thinking of the so-called Japanese-style TOB, where the purchaser ensures that the employees in the takeover target are clearly aware of the intent of the purchaser and understand it: a sensible, open purchase. Essentially, this Japanese-style takeover method is desirable. All of Nidec's M&A actions have been acquisitions of companies in distress, but even then, we did not push the company's need for capital. Rather, we humbly put forward our clear vision, adopting throughout the attitude of "let's do this together." I believe that that is precisely why we were able to rebuild all those companies so successfully, and to boost their corporate value. After shareholders come employees. The secret to success in any takeover in Japan is that you do not buy the hearts of employees: managers must win them over with their own hearts.

After the livedoor commotion, there was much talk about how to protect companies against takeover bids. The market has become very sensitive, and I believe this is why the arrival of a free M&A market in Japan has been delayed. I can understand why it would be necessary to construct a strategy to protect against hostile takeovers opposed by employees and shareholders, to say nothing of the managers. However, it is not a good idea to overreact to a "healthy hostile takeover" that is only being called "hostile" by managers whose real interest is their own self-protection.

Companies should not become overly frightened, expending their energy on defenses. Instead, they should put their efforts into raising their corporate value and aggregate market value to ensure that they are not taken over easily.

Nidec would like to see the success of the Japanese-style TOB, where it is welcomed by both shareholders and employees. Also, moving towards our ultimate dream of becoming the industrial group with the largest number of employees in the world, we will continue to push forward with our M&A strategy. JS

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