

Corporate Restructuring in Japan

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1. A change in the management environment

Within the 21st century, the change of the management environment that is represented in the development of the globalization and the advancement of the information technology (IT) which has influenced the management activities of the Japanese company in the era of mega competition, whether one likes it or not. Subsequent to the bubble economic collapse, each company gropes a new management strategy during "the lost decade" and the Japanese style management has been pressed for a second look. In other words, it was a reexamination of the Japanese style management which is represented by lifetime employment system, seniority system, and Japanese style family system based on the adoption of new bundle graduating from schools which was maintained over many years². As a result, a different kind of

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² The *management family principle* is popularized as a typical type of the Japanese type management around World War I, and relations between owner, manager and employees are compared to the parent and child under this management family principle, and their interest as a family is an argument according to Kazama who argues and emphasizes on both labor and management. According to management family principle, laborer and employer stand on the same relationship because management and labor relationship is like the relationship between parent and child. Following are some characteristics of management family principle.

Japanese company is being formulated in terms of scale and speed, since there is no any other option rather than company restructuring which has not been experienced so far in Japan. On the other hand, the main bank system as one of the key financial and managerial force is being insignificant steadily³.

After the election in autumn 1996, the second Hashimoto cabinet proposed a national regeneration program in the 140th ordinary Diet and announced an administrative policy on 20th January 1997 considering the socio-economic system prevailed at the time. There are many factors which influence the management activities of the Japanese company and a series of financial system reforms was introduced. Particularly, the major factor which made it promote was the restructuring of the Japanese company. The second Hashimoto cabinet proclaimed that the main purpose was to change the Japan's system from the old financial system as known as "convoy system" which put up and protected by the Ministry of Finance to the "new financial

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- Their interests are equal and there are no disputes among owner, manager and employees (same as within the family).
 - Management family principle is not completely different from Anglo-Saxon theory which is based on 'contract'
 - Seniority is a very important concept under the management family principle.
 - Labor-management relationship is considered as a 'telling' which was leading to 'lifetime employment'.
 - Wage is to maintain the life and it is according to the level of the position.
 - According to their individual lifestyle they get the salary like in a welfare system. Kazama (1989), pp.123-125.

³ Nowadays the *existence of the bank dependency* is gradually moving away from the Japanese enterprise and the tendency is to depend on indirect finance for the fund raising, contrary to the situation prevailed subsequent to the World War II. Therefore the 'main bank' has to target larger companies, particularly medium and small-sized companies that cannot go to the capital market due to various limitations. For the medium and small-sized companies, they can minimize their cost of capital and stabilize their fundraising by accessing several main banks instead of adhering to one main bank. Since the lending bank operated as an agent (banking agency) and extended helping hand mainly in fundraising at any time among many other series of assistances, it was called the 'main bank'. However, a joint research on the main bank conducted by Miwa and Ramseyer argue that the real main bank system as some hypothesized has not existed in Japan. Miwa and Ramseyer (2001), pp.288-291. On the other hand, according to Shimotani the central idea goes through the organic integration about the relations of the company related to the parent company, and "a company group" as a function. (Shimotani 1993, pp.39-47) Fukuyama states that the South Korean financial combine cannot be equated with the Japanese company affiliation (keiretsu) as the degree of the network, because South Korean network is low in comparison with the Japanese affiliation, Fukuyama (1995), pp.129-131.

liberalization" which aimed at the global market that can adapt itself to the free, fair and global market functioning together with the market principle allowing greater transparency; which was treated as more trustworthy, was emphasized. In England, financial reform was begun again in 1986 subsequent to 1975 reforms, and it took time comparatively, while the Japanese financial system reforms mainly address the banks, securities business and insurance, which started in 1997. The financial reorganization of the banking sector proceeded with rapid force along with a series of financial system reforms and the main bank was put together, for example; "Mizuho Holdings", "Sumitomo Mitsui group", "Mitsubishi Tokyo Financial group", "UFJ Holdings", "Risona Holdings" are combined at present. The four big securities companies became extinct in the Japanese capital market from the viewpoint of simultaneously going side by side, and the weight of the foreign securities company rises and long-term trust banking system and a trust bank system are being integrated around the mega-bank. On the other hand, recently Japanese banking circles help as well maintain new learning with collective adoption, seniority system about talented people as well as other business worlds, and some of the Japanese large companies are related to the securitization of credit, real estate, the fund-raising in the foreign countries, M&A, and so on and it was told as "departure from the Japanese Banks"⁴. Though it is natural, it spreads to the main bank system as well which is one of the elements which supported Japanese style management, and the malfunction of the financial system has a considerable impact on the management activities of the Japanese companies.

Incidentally, when it was searched for the revision of the legal system about corporate restructuring in recent years in Japan, firstly, it began for the revision of the joint legislation in 1997 and opening of the holding company as per the Antimonopoly Law in 1999 and the maintenance of the stock exchange, stock move system which makes holding company foundation simple, and the parent and subsidiary company legislation. In 2000, the achievement of the individual firm became transparent in the holding company though a main Japanese company went through stock and so on for a long time and a company group was formed because the Antimonopoly Law was enacted under the occupation from a reason to say for a huge financial combine that to take part in the militarism in the days before the war and after the war and was

⁴ Yanai (2002), pp.30-34.

prohibited⁵. Opening of the holding corporate is decided a great impact to be given when it proceeds with the law maintenance for corporate restructuring though it is natural⁶. Moreover, it proceeds with the inspection of the shareholders' derivative suit, the reduction of director's responsibility and strengthening the auditor's function in 2001 by the 1st revision, 2nd revision by the new stock reservation right foundation and the 3rd revision (the treasury stock opening, unit stock foundation) (the expansion of the stock option and the computerization of the shareholders' meeting), in 2002⁷. As far as the restructuring of the Japanese company is concerned, it is said that a series of law maintenance developed rapidly, and it is not an exaggeration.

As for a series of such law maintenance's being done, the existing system doesn't completely making use of the advantage of the incorporated company system that was maintained for a long time and which originally should have a Japanese company for the financial combine dismantling developed as a part of the reforms after World War II, the Antimonopoly Law enactment and the bill along with the method of enactment to deal with the corporate law revision, and so on⁸.

Even though there are some troubles with the trend, the Japanese company was devoted to restructuring as mentioned above due to rapid change of the management environment in the latter half of 1990s. A Japanese company sometimes has been forced, from the usual business in the time which must produce a new business itself only to cope with the changing management environment. For example, even if it was an old excellent company that is said to change business' own contents remarkably, it is pressed for the examination of not only the business but also the management setup itself. In other words, when a client demands rightly and a company can't meet that, even to maintain, continuance turn out to be difficult with the life cycle of the product or service becoming short caused by the change in the age. Because of that, a review and company restructuring as a part of the management strategy has become one of the

5 Kishida (2000), pp.412-413. In 2001, the stock related system and the company related documents were improved. After 2002, web based disclosure, internet bidding, improvements in the Tokyo Stock Exchange, issuing and disclosure methods were changed drastically. Until recently, Japanese company could not sell their shares freely because of the traditional Japanese systems like keiretsu. Harada (2002a), pp.4-9., Harada (2002b), pp.19-27. Harada (2002c), pp.32-39. Shizeki (2002a), pp.6-18., (2002b), pp.24-31.

6 Ezrati (1999), p.204.

7 Asahi Law Office and Chuo Mitsui Trust & Banking Co., Ltd. (2002), pp. 2-3.

8 Uemura(2002), pp.8-12.

manager's extreme important subjects to be handled.

2. The form of business restructuring

Corporate restructuring is to recognize the contents of the managerial resources of the company and to reform the whole constitution of the company including the business activation by the techniques such as creating some business, withdrawing from some business, dissolving (inverse of merging) of the business. Therefore, in a wider sense, this reaches even the withdrawal of the business in the regeneration of the business whose achievements were deteriorated and the management malfunction⁹. It seems that for example, the ailing company which manages on many sides divides in two years at four business units, withdraws from four another business units simultaneously, and makes the line of 25 operate newly as an enterprise composition element, and purchases the line of 16, and start-up of the line of 9 inside a company¹⁰. In other words, with a large organizational change which put both external reorganization of a company, and internal reorganization into the view, enterprise reconstruction sets creation of firm value as the fundamental purpose rather than means only mere personnel reduction. It becomes through external reorganization like M&A and alliances and internal reorganization like divided into divestiture and spin-out. Furthermore, M&A can be divided into a merger, acquisition and company divestiture and an alliance can be divided into a capital alliance and a business alliance¹¹.

So far, M&A kept making structural changes remarkably as a technique of corporate restructuring and was complicated due to the diversification; though in the past mergers and acquisitions were focused only on character of restructuring. M&A is added and as far as today's trend is considered the company division (divestiture) is closer to the actual condition as a basis of structural reforms of a company. In other words, from the viewpoint of the management strategy, if the long run raising of firm value (corporate value) is taken into account, some of the Japanese businesses are separated and the management strategy of the company is divided¹², this is sometimes referred to as

9 Tasaku (2002), pp.8-12.

10 Thompson, Jr. and Strickland III (2001), p.306.

11 Nakagaki (1999), pp.57-58.

12 Kitano and Kitazume (2002), p.161.

Figure 1 The Form of Corporate Restructuring

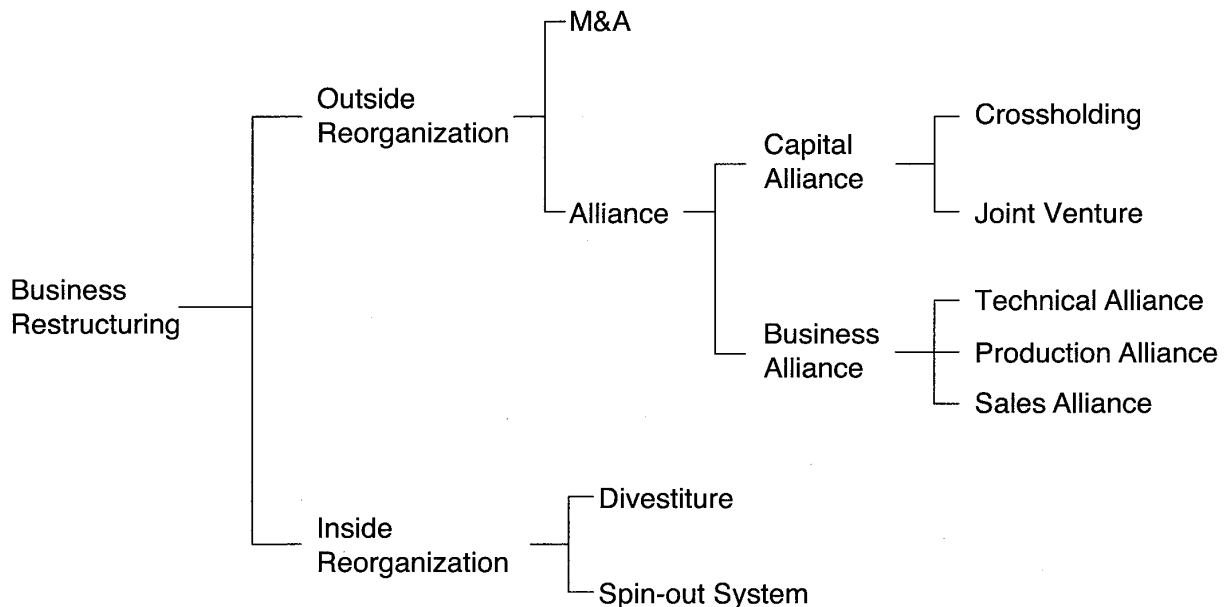
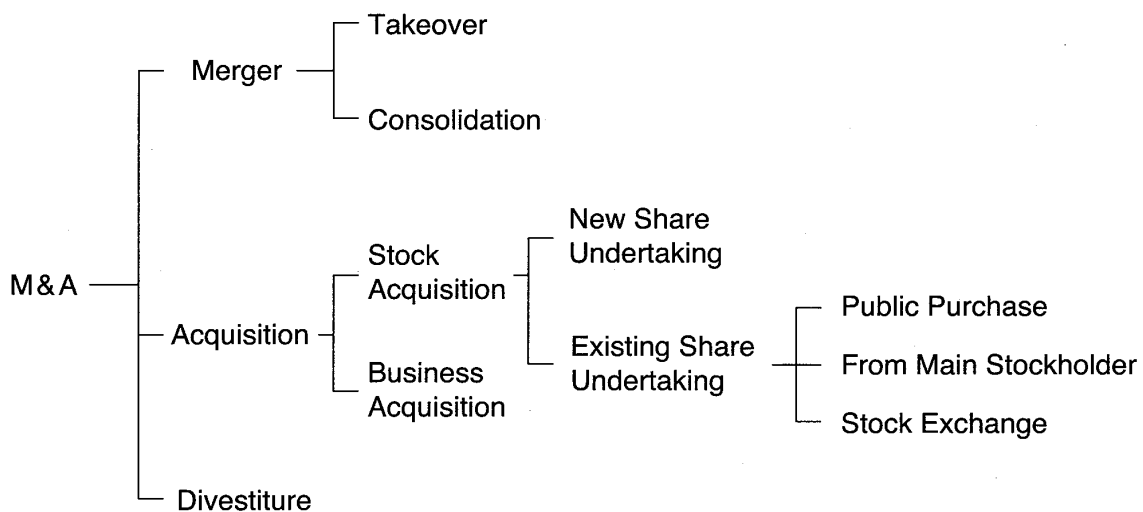


Figure 2 The Form of M&A



M&A&D. Furthermore, today the life cycle of the business becomes globally, under the management environment of mega competition which means the concept of the continuous restructuring is more appropriate than M&A&D¹³.

Incidentally, this is separated from the takeover by consolidation; two or more company combines and as far as the legal personality is concerned this is termed as a

13 Yokoyama and Honda (1998), p.24.

merger. The company which absorbs another company (in case of two and more companies) that company is special and which was absorbed becomes extinct, and all the properties and debts are succeeded to the existing business in case of a takeover. There have been many cases of takeovers in Japan since the procedure was comparatively easy and there were a few burdens of cost. Combination of two or more companies is the character of a consolidation, and the newly established company completely acquire the properties and debt of the usual company. A procedure such as the preparation of the joint contract and establishment of registration is troublesome, and shows a tendency to avoid from a cost's piling up on this edge.

Although acquisition is a form in which a buyer company governs a seller company, without unifying legal personality, it is divided into acquisition of stock and business acquisition. Acquisition of stock will inherit voting-rights of legal personality until a buyer company acquires the management right of a seller company, and it will also take over the risk which a seller company has potentially as a result. There is going-public purchase (tender offer or take-over-bit) among acquisition of stock as a special system. Going-public purchase is the system where the revision of Securities Exchange Act in 1971 accepted, and after it indicates the intention of buying the stocks of a specific company, it is the technique of buying stocks for all investors, without negotiating with the manager of a candidate company. Moreover, exchange of shares is the system which became possible with the revised Corporate Law in 1999, all the issued stocks that other companies have published are acquired, a subsidiary turns into a perfect subsidiary 100%, and the company which acquired stock serves as a perfect parent company. The stockholder of the company which became a perfect subsidiary receives assignment of the stocks of the parent company newly publishes, and turns into a stockholder of the parent company¹⁴. A potential company can be purchased substantially; without being accompanied by cash out flow, and it means that one choice of enterprise reconstruction had increased by foundation of a stock-swap system¹⁵.

When compared to M&A, company divestiture usually means one of the businesses of the company is separated and that part is followed by another company. It means enhancing the firm value by increasing new cash flows. In other words it is formed

14 Although the Corporate Law has specified exchange of shares and the stock move in a separate article, the rule relation between a perfect parent company and a perfect subsidiary is the same. (Corporate Law article 352, article 364).

15 Yasuda, Matsuko and Takamiya (2000), pp.244-247.

by separating a corporation itself changing as a whole¹⁶. (However, the company divestiture is not just an act in dealing, rather it combines). The diversification strategy was used when the competitiveness was decided to be weakened until 1980 even in Japan and was succeeded within the 1990's¹⁷. As for the Japanese company as well, the concept of divestiture began to actively practice only after the company restructuring was reached. About 10-15 years ago, Japan did not adopt this kind of restructuring; however, with the turbulent setup adjusting for such developments is unavoidable.

Because establishment of a pure holding company was forbidden by Article 9 of Antimonopoly Law in 1947, prior to a half-century, Japan was prevented revival of a zaibatsu company as a part of dissolution of the zaibatsu after the war¹⁸. By the movement of the strong request from the industrial world and so on, 1997 the holding company was principally removed from the ban, except for three types which company rule concentrates too much^{19, 20}. A pure holding company concentrates on utilizing the management resources of a subsidiary company effectively from a long-term viewpoint, without being engaged in management of the company. While a holding company is also itself engaged in management, it strives to utilize the managerial resources of a subsidiary company effectively. Removal of the ban of the holding company enables the holding company to present the vision and mission of the whole group clearly, and to stand long-term management strategy. When a holding company system is introduced, a subsidiary company will have an independent existence with legal personality. It is in the position in which individual management strategy can be stood unlike the case where a division system and a company system are adopted, and entry into new business of

16 There are a method of founding a new company itself and making the company inheriting a part or all of the business of its company, and a method of making other companies which already exist inherit a part or all of the business of its company in partition of corporation. Moreover, there are method material division which the company itself transferred the business about the new stocks which the company which inherited business publishes acquires, and a method which the stockholder of the company which made business inherit is made to acquire in partition of corporation. Nakamura (2001), pp.16-18.

17 Konuma (2002), pp.14-18.

18 Japanese type Zaibatsu or holding company had been formed / developed during 1935-1945 and the similar formations before the World War II were not generally considered as Zaibatsu. Shimotani (1996), pp.60-64.

19 Arthur Anderson Business Consulting (1999), pp.33-37.

20 The 3 types are the old zaibatu-style group, the large-scale finance company, and the combination of similar big business companies. Nihon Keizai Shimbun, June 11, 1997.

practical use and achievements of human resources becomes easy and simple. Moreover, the advanced support attitude to a subsidiary business corporation is ready by clarifying the vision and missions of the whole group, deciding upon long-term management strategy, and sharing activity of financing, distribution, taxation, legal affairs, public relations, etc., when a holding company takes charge of the administration mainly. It is leading to the productivity of decision-making while in other words responsibility and authority become clearer [advantage of a holding company system], decision-making quickens and a strategic function is strengthened²¹.

However, in order to utilize a holding company system effectively, the left-behind matters like, skills for the education of the firm value that a global competition can be remained, financial power, and professional owner, the skill of quick and continuous company portfolio management, a company venture, and firm value competition, training of various experts, objective evaluation systems of a holding company function, etc. have to be considered²². For example Tostem Inax Holding Corporation is a pure holding company by which Inax Co., Ltd. and Tostem Co., Ltd. had formed management integration and were founded as an example of representation of Japan on October 21, 2001. In this case, Tostem Co., Ltd. which changed the trade name of Tostem Co., Ltd. into Tostem Inax Holding Corporation on 1st October in agreement with Tostem Co., Ltd. and Inax Co., Ltd., founding a common holding company by the technique of exchanging shares and established all the business by divestiture simultaneously²³.

Furthermore, when the viewpoint is changed and M&A is classified from the viewpoint of the organization structure between companies, it can be divided into horizontal M&A, vertical M&A, and conglomerate type M&A. Horizontal type M&A is the merger and purchase between the companies which develop the same business, and typical vertical M&A occurred at the end of the 19th century and the beginning of the 20th century in the United States, there were many similar kinds of forms. However, recently Renault (France) acquired a larger amount of stocks of Nissan Motors (Japan) for 4,911 million dollars in March 1999 making as a large-sized horizontal M&A which crossed the border in the automobile industry, the communication industry, etc. is conspicuous.

21 Arthur Anderson Business Consulting (2000), pp. 33-37.

22 Hori (2002), pp.181-182.

23 Tostem Inax Holding Corporation became a typical pure holding company on October 21, combining Tostem Co.Ltd. and Inax Co.Ltd. for the first time after World War II.

Vertical M&A is in the stage which lasts downstream from an upper part of a river until it reaches sales, which played the central role in the United States in the 1920s.

In recent years, large-sized vertical M&A which were used by the communication industry as the core in the flow of IT development was seen. For example, a major company like AOL in the Internet industry purchased the Time Warner of media for 165,900 million dollars. Conglomerate type M&A means that M&A developed in order to manage an unrelated company which may raise company value according to the merger effect. It played the central role of M&A from the 1960s to the 1970s in the United States²⁴. The number of cases is also increasing rapidly while the scale of M&A enlarges in recent years due to the factors such as; (1) technological change, (2) economies of scale, economies of scope, complementarity, and the need to catch up technologically, (3) globalization and freer trade, (4) change in industrial organization, (5) new industries, (6) deregulation and regulation, (7) favorable economic and financial conditions for much of the past two decades, (8) negative trends in certain individual economies and industries, (9) widening inequalities in income and wealth, and (10) relatively high valuation for equities during the 1990s²⁵. It is necessary to confirm whether the M&A is a part of form of the external reorganization in company restructuring²⁶.

As stated so far, the company restructuring in today's critical setup is developed at the scale and speed which human beings have not experienced so far, and the result of restructuring settles the fate of a company directly. Even though the forms of corporate restructuring vary as mentioned above, the requirements made indispensable to a manager of the 21st century are speeding up the process of corporate restructuring, creating the organization structure, promoting social combination of the talented people belonging to different organizations before corporate restructuring and attaining the target of corporate restructuring for a short period of time²⁷.

In Japan, though corporate restructuring is superficially advocated until now, it hesitated over corporate restructuring on the grounds of maintaining the life time employment. It was criticized that large-scale personnel reduction was determined as a negative outcome of restructuring, at the time just before going for bankruptcy, and says value of human resources was declined. Conversely, it is said that Japan has not

24 Brealey and Myers (2000), pp.941-942.

25 Weston, Mitchell and Mulherin (2004), p.3.

26 Block and Hirt (1997), p.483.

27 Ashkenas and Francis (2001), pp.182-196.

decided on the full-scale corporate restructuring in the time of maintaining fair results²⁸. Corporate restructuring is one of the duties of the chief executive officer (CEO) who plays a leadership role when it becomes a subject of management strategy which considers maximization of firm value as a goal.

3. Change of corporate restructuring

As far as M&A is considered under the broader area of restructuring, M&A has increased rapidly in terms of number and size from 1990's (Table 1). The background reaches to the facts that the global companies have given their impetus to operations worldwide and the various barriers of protectionism has collapsed in the new growth markets like EU and East Asia²⁹. Particularly, we should note the worldwide M&A in the area of finance and information technology from the late 1990's. On the other hand, these kinds of M&A be apt to the collapse of business without clear missions or visions of the companies which tend to weight in with maximum value of stock³⁰. We can see many failures of companies which have pursued the maximization of stock value from the stand point of short-term profit. The purpose of top management should depend on the creation of corporate value that lead up to the wealth of stakeholders like customers, employees, stockholders, and community members in the long-term³¹.

After World War II, adapting the rapidly changing managerial environment, the Japanese companies have experienced several restructuring periods. Firstly, the M&A Boom has occurred from the late 1960's to early 1970's. In this period Japan has enjoyed a rapid economic growth and the several enterprise groups (*kigyo-shudan*) among which the big companies were put less solid together than pre-war *zaibatsu* have established the high advanced industries. As a result, they have to seek the appropriate corporate size. Accordingly, the large companies pursued the higher position in each industry and new corporate systems. Particularly, pre-war *zaibatsu* groups like Mitsui group (led by Mitsui Bank, Ltd.), Mitsubishi group (led by Mitsubishi Bank, Ltd.), Sumitomo group (led by Sumitomo Bank, Ltd.), Yasuda-Asano group (led by Fuji Bank,

28 Konuma (2002), pp.1-12.

29 Hubbard (1999), pp.8-10.

30 Yanai (2001), pp.214-216.

31 Kennedy (2000), pp.178-180.

Table 1 M&A Activities Announced (\$ Billion)

	U.S.		Worldwide		Rest of the World	
	\$ Totals	% Change	\$ Totals	% Change	\$ Totals	% Change
1985	\$201		\$237		\$36	
1986	205	2	260	10	55	53
1987	214	4	312	20	98	78
1988	356	66	503	61	147	50
1989	306	-14	556	11	250	70
1990	172	-44	430	-23	258	3
1991	133	-23	339	-21	206	-20
1992	132	-1	322	-5	190	-8
1993	219	66	435	35	216	14
1994	310	42	527	21	217	0
1995	404	30	825	57	421	94
1996	564	40	1,003	22	439	4
1997	811	44	1,497	49	686	56
1998	1,480	82	2,302	54	822	20
1999	1,436	-3	3,072	33	1,636	99
2000	1,661	16	3,180	4	1,519	-7

Data: Thomson Financial Securities Data.

Source: Weston and Weaver (2001), p.2.

Ltd.), Furukawa group (led by Daiichi Bank, Ltd.), burdened the important role of Japanese economy³². During this period, Ishikawajima-Harima Heavy Industries LTD. (merger of Ishikawajima Heavy Industries LTD. and Harima Shipbuilding & Engineering, Ltd.) in 1960, Mitsubishi Heavy Industries Ltd. (merger of New Mitsubishi Heavy Industries Ltd., Mitsubishi Shipbuilding & Engineering, Ltd., and Mitsubishi-Nippon Heavy Industries Ltd. in 1964), Nissho-Iwai Co., Ltd.(merger of Nissho Co., Ltd. and Iwai-Sangyo Co., Ltd. in 1968),Nippon Steel Corporation(merger of Yahata Steel Corporation and Fuji Steel Corporation in 1970) have established³³.

The Second M&A Boom has occurred in the late 1970's, particularly in the area of retail trade industry like supermarket and convenience store. In 1974 Seven-Eleven Japan Co., Ltd. has established as the first Japanese convenience store. Also, the large scale M&A of retail stores increased during this period despite of the regulation against

32 Arisawa ed.(1994a), pp. 148-150.

33 Arisawa ed.(1994a), pp. 88-93.

large scale store³⁴.

The Third M&A Boom has progressed in the process of the rapid increase in the value of yen after the Plaza Accord in 1985. The export-oriented industries like auto and electronic industries have accomplished severer conditions through the reduction of cost and overseas operations of their productions³⁵. Meanwhile, the bubble economy begun to penetrate into the Japanese companies, which increased to adopt the In-Out type M&A. For example, in 1988 Bridgestone Tire Co. acquired Firestone Tire & Rubber for 2.6 billion, in 1989 SONY Corporation acquired Columbia Pictures for 3.4 billion, and in 1990 Matsushita Electric Industrial Co., Ltd. acquired MCA for to 6.6 billion³⁶. During this

Table 2 Top 10 Mergers

	Acquirer	Acquired	Announcement Date	Amount (\$ Billion)	Industry
1	AOL	Time Warner	January 2000	\$165.9	Internet/media
2	Exxon	Mobil	December 1998	78.9	Oil
3	Travelers Group	Citicorp	April 1998	72.6	Finance
4	SBC Comm.	Ameritech	May 1998	62.6	Telecommunications
5	Nations Bank	BankAmerica	April 1998	61.6	Finance
6	Vodafone Group	AirTouch Comm.	January 1999	60.3	Telecommunications
7	AT&T	MediaOne Group	April 1999	56.6	Telecommunications
8	AT&T	Tele-Communications	June 1998	53.6	Telecommunications
9	Total Fina	Elf Aquitaine	July 1999	53.5	Oil
10	Bell Atlantic	GTE	July 1998	53.4	Telecommunications

Source: Weston and Weaver (2001), p.3.

34 Arisawa ed.(1994b), pp. 306-313 .

35 Nakamura (1993), pp. 661-664 .

36 The cost of acquisition of Bridgestone was a large amount which equivalent to about 60% of the annual sales of the company. In the case of SONY, the company name of Colombia Pictures Entertainment, Inc. was changed into Sony Pictures Entertainment, Inc., in 1991, and it listed it on Tokyo Stock Exchange part II. In the case of Matsushita Electric Industrial, 80% of the share which the U.S. Kuniko company would own in 1995 was sold off to Seagram's of Canada, and it suffered a loss of 1,200 million dollars. Nakagaki (1999), pp.61-70.

period, in 1987 Aoki Construction Co., Ltd. acquired Westin Hotels for 1.1 billion, Seibu-Season Group Co., Ltd. acquired Intercontinental Hotels for 2.3 billion and Mitsubishi Real Estate Co., Ltd. acquired Rockefeller Center for 0.9 billion. However, these M&As are oriented to the operations of overflowed funds without the strategic main business³⁷.

The Fourth M&A Boom remarkably increased the purpose of clearing away the bad debts generated as a result of bubble economy, using the IN-IN type M&A. For example, in 1993 Nippon Meat Packers Ltd., acquired Kamakura Meat Packers Ltd., in 1994 Sumitomo Cement Co., Ltd. and Osaka Cement Co., Ltd. merged into Sumitomo-Osaka Cement Co., Ltd. and also in 1995 Mitsubishi Bank Ltd. and Bank of Tokyo Co., Ltd. Merged into Tokyo-Mitsubishi Bank Co., Ltd.

The Fifth M&A Boom is accepted as the firm value oriented M&A focusing the effective use of managerial resources and pursuing the maximization of firm value in other words maximization of shareholders' wealth. This time some major Japanese companies reflected the main operations and the mega competitions (Table 2) under the context of globalization and information technology³⁸. Reasonably Japanese government and Japanese companies have not only the introduction of suitable economic policies but also the improvement of various laws and regulations. As a result, M&A of Japanese companies have increased rapidly during this period in terms of number and size. Particularly, Japanese companies compelled to accept large scale OUT-IN type M&A (Table 3).

Japanese companies were accustomed to indirect financing and cross-holding of shares, while having a restricted disclosure system with lack of proper financial skills. Accordingly, at the beginning they refused Anglo-Saxon typed M&As. However, a series of financial system reforms and the progress of globalization and information technology evoked steadily the restructuring of Japanese companies (Table 4, Table 5, Table 6, and Table 7). In addition the special managerial environment such as low return on equity and high price-earnings ratio (P-E) urged Japanese companies to promote investors relationship and keep in with foreign investors. As a matter of fact, some companies specializing in restructuring decided to further enhance their reforms (Table 8, Table 9)³⁹. Though Japanese companies need to get the skill of efficient restructuring operations in

37 Tett (2004), pp.49-50., Hayashi (1993), pp. 87-88 .

38 Hattori (1999), pp.21-22.

39 Mizutome and Miyazaki (2001), pp.18-19.

Table 3 Recent M&A of Japanese Companies (¥ Million)

	IN-IN		IN-OUT		OUT-IN		OUT-OUT		Total	
	amount	No.	amount	No.	amount	No.	amount	No.	amount	No.
1997	583,325	157	607,145	113	155,858	18	463,229	17	1,809,557	305
1998	703,463	157	920,410	124	754,234	28	848,105	24	3,226,212	333
1999	758,2721	278	1,843,633	154	2,518,761	50	1,749,494	43	6,870,160	525
2000	,530,899	476	3,408,625	230	1,470,871	80	459,822	19	6,870,217	805
2001	1,643,458	589	1,470,609	184	2,125,954	77	2,275,150	14	7,515,171	862

Source: Iida (2002), p.70.

Table 4 Recent M&A type of Japanese Companies

	Merger		Acquisition		Business Acquisition		New Share Undertaking		Existing Share Undertaking		Total No.
	No.	%	No.	%	No.	%	No.	%	No.	%	
1995	33	6.2	197	37.1	95	17.9	199	37.5	7	1.3	531
1996	56	9.0	231	37.2	101	16.3	213	34.3	20	3.2	621
1997	75	10.0	235	31.2	136	18.1	277	36.8	30	4.0	753
1998	68	8.2	278	33.3	213	25.5	245	29.6	28	3.4	835
1999	107	9.2	381	32.6	269	23.0	361	30.9	51	4.4	1,169
2000	98	6.0	445	27.2	335	20.5	717	43.9	40	2.4	1,635
2001	79	4.8	497	30.1	382	23.1	629	38.1	66	4.0	1,653

Source: Iida (2002), p.70.

Table 5 IN-OUT type M&A

	North America		Europe		East Asia		Others		Total No.
	No.	%	No.	%	No.	%	No.	%	
1997	61	34.1	64	35.8	28	15.6	26	14.5	179
1998	61	31.6	74	38.3	42	21.8	16	8.3	193
1999	85	32.8	72	27.8	81	31.3	21	8.1	259
2000	94	41.6	57	25.2	60	26.5	15	6.6	226
2001	37	36.6	27	26.7	31	30.7	6	5.9	101

Note: in case of 2001, total numbers are data from January to June.

Data: Thompson Financial.

Source: JETRO (2002), p.47.

Table 6 OUT-IN type M&A

	North America		Europe		East Asia		Others		Total No.
	No.	%	No.	%	No.	%	No.	%	
1997	19	50.0	8	21.1	11	28.9	0	0.0	38
1998	37	62.7	21	35.6	1	1.7	0	0.0	59
1999	50	46.7	45	42.1	9	8.4	3	2.8	107
2000	78	51.6	47	31.1	19	12.6	7	4.6	151
2001	37	59.7	16	25.8	1	1.6	8	12.9	62

Note: in case of 2001, total numbers are data from January to June.

Data: Thompson Financial.

Source: JETRO (2002), p.66.

Table 7 Big OUT-IN type M&A in Japan

	Acquirer	Acquired	Amount (\$ Million)	Type	Industry
1998	Travelers Group	Nikko Securities	1,584	Capital Investment	Finance
1999	GE Capital	Nihon Lease	6,566	Acquisition	Finance
1999	Renault	Nissan Motor	4,911	Capital Investment	Automobile
1999	AT&T·BT	Kokusai Digital	1,834	Capital Investment	Telecomm.
2000	Exxon Mobile	General Oil · Tonen	2,556	Merger	Oil
2000	GE Capita	Tohoh Life Insurance	2,324	Capital Alliance	Insurance
2000	Ripplewood	Long-Term Credit Bank of Japan	1,149	Merger	Finance
2000	GM	Fuji Heavy Industries	1,052	New Share Undertaking	Automobile
2000	AXA	Nihon Dantai Life Insurance	1,954	New Share Undertaking	Insurance
2000	Daimler-Chrysler	Mitsubishi Motor	1,926	New Share Undertaking	Automobile
2001	Vodafone	Nihon Telecomm.	2,211	Stock Acquisition	Telecomm.
2001	Vodafone	Nihon Telecomm.	1,350	Stock Acquisition	Telecomm.
2001	Vodafone	Nihon Telecomm.	5,486	Stock Acquisition	Telecomm.
2001	Prudential	Kyoei Life Insurance	1,270	Merger	Insurance

Note: Over 100 Million Dollars.

Source: JETRO (2000), JETRO (2001), JETRO (2002)

Table 8 Market Indexes among National Companies

	Nation	Market Capitalization (\$billion)	P-Eratio (times)	Yield (%)	Return on Equity (%)
1	U.S.	\$11,797.1	22	1.2	20.7
2	Japan	2,217.6	49	0.9	8.5
3	Britain	1,875.9	22	2.6	22.8
4	France	1,024.4	22	1.9	21.2
5	Germany	810.0	32	2.5	15.1
6	Switzerland	563.8	27	1.2	21.6
7	Netherlands	473.2	26	1.9	21.9
8	Italy	464.6	26	2.0	17.6
9	Canada	382.8	17	1.6	16.4
10	Spain	269.6	22	1.8	16.8

Data: Morgan Stanley Capital International, *Business Week*.

Source: *Business Week*, July 9, 2001.

the future, there are many problems such as lack of expertise in restructuring operations, unstable stock market, existence of keiretsu system, unaccomplished law systems and so on⁴⁰.

4. Conclusions

Today, many companies wanted to shift to a new paradigm replacing the older one prevailed about a century and of course it has changed to a greater extent. Newly introduced systems like pension fund, investment fund, new company owners and knowledge workers represent the new system⁴¹. The concept of a company follows on changing and it gropes for various business models.

Under such business environment, Japanese companies rearrange the strong points cultivated so far, and are pressed for presentation of the visions and missions which may be adapted for a new paradigm. A Japanese company never run for M&A again like in the 1980s, and make efforts to do their best for the original business, and it

40 Nihon Keizai Shimbun, October 24, 2002.

41 Drucker (2002), pp.271-273.

Table 9 Stockownership by Types of Investors (All Listed Companies)

	Govt. & Local Govt.	Financial Institutions	Business Corporations	Securities Companies	Individuals	Foreigners
1950	3.1	12.6	11.0	11.9	63.1	—
1955	0.4	23.6	13.2	7.9	53.2	1.7
1960	0.2	30.6	17.8	3.7	46.3	1.3
1965	0.2	29.0	18.4	5.8	44.8	1.8
1970	0.2	32.3	23.1	1.2	39.9	3.2
1975	0.2	36.0	26.3	1.4	33.5	2.6
1980	0.2	38.8	26.0	1.7	29.2	4.0
1985	0.8	42.2	24.1	2.0	25.2	5.7
1990	0.6	45.2	25.2	1.7	23.1	4.2
1991	0.6	44.7	24.5	1.5	23.2	5.4
1992	0.6	44.5	24.4	1.2	23.9	5.5
1993	0.6	43.8	23.9	1.3	23.7	6.7
1994	0.7	43.5	23.8	1.1	23.5	7.4
1995	0.6	41.4	23.6	1.4	23.6	9.4
1996	0.5	41.3	23.8	1.1	23.6	9.8
1997	0.5	40.2	24.1	0.8	24.6	9.8
1998	0.5	39.3	24.1	0.7	25.4	10.0
1999	0.1	36.5	26.0	0.8	18.0	18.6
2000	0.2	39.1	21.8	0.7	19.4	18.8
2001	0.2	39.4	21.8	0.7	19.7	18.3
2002	0.2	39.1	21.5	0.9	20.6	17.7

Source: *Tosho-Yoran*.

has to utilize effectively the opportunity of the company which patient capital gives and taking care in acquisitions⁴². However, today, the company restructuring shows the visions and missions clearly to which competition between the companies which both stock sharing became thin, the influence of a main bank declined, and poor business performance continued (in the subsidiary company) rather than the independent company system, and include a foreign company is intensifying, and was turned to creation of firm value can be called as the problem of the utmost importance for a present day manager⁴³.

42 Dore (2000), p.230.

43 Porter, Michael E. and Takeuchi Hiroshi (2000), pp. 116-117.

At the outset, there is a goal for a company in the creation of value. The management environment should enable to make measurement of the firm value. It should be organized including the law maintenance, and the movement to make value of a future a base about of the firm value and to have efforts to measure it taking root as for the Japanese company as well, though it is a kind of imperfection while the market principle globally works. There is a case that increases in firm value is treated as a part of the core of company restructuring.

The firm value means value of all the person concerned that have a claim to the company represented by a creditor and the stockholder own⁴⁴. Moreover, a shareholder value deducts a debt from firm value⁴⁵. Therefore, as long as there is no significant change in a debt, the increase in firm value leads to the increase in a shareholder value, and by repaying a part of shareholder value to debt, capital composition becomes good and it can raise the firm value further. Today's management environment is changing rigorously, and it is asking to create the firm value within a short period of time to the company, and a Japanese company must make restructuring, considering one of the extreme important subjects of the management strategy.

As a result, Firstly it should be emphasized to recognize the firm value and to establish the technique of measuring the firm value. In other words, the company which utilizes management resources and attaining customer satisfaction is rearranged, and while measuring value for every business unit, the company restructuring in consideration of the synergistic effect as the whole company must prepare a promptly developed system.

Secondly, before restructuring a company there shouldn't be a disagreement of corporate cultures, because the newly integrated corporate culture permeates in the whole company. For that purpose, human-resources management of the company on condition of an employee's consciousness reform is needed.

Third one is professional development concerning company restructuring. Since Japan got accustomed and had been familiarized with the own Japanese style management system over many years, it did not need any special knowledge about company restructuring. However, into the flow of globalization of business environment, and IT development, Japanese companies cannot ignore the Anglo-Saxon management

44 Damodaran (1999), p.440.

45 Rappaport (1998), pp.55-57.

system of a foreign company, and may not be able to advance the existing management activities without considering such developments. The present condition is that the company restructuring in a foreign company has enlarged increasingly not only the number of cases but also the scale. In the bottom of such business environment, mainly not only of the methodology of IPO (going public-initial public offering) or M&A but also the full-scale financial management reforms can be carried out professionally which will play an important role in Japanese companies⁴⁶.

The Japanese company is under the conditions which compel to cope with the subject of company restructuring, and the people concerned including the manager, the employee, and the stockholder must not neglect the efforts turned to creation of firm value from each viewpoint.

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46 Gyoten and Tahara (2002), pp.4-7.

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