

# **“Tsunami” Globalization & New Business Models in Japan**

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## **Three Topics of “Tsunami”**

### **“Tsunami” I :**

#### ***Sun Tzu’s Style War (孫子兵法) of M&A : Livedoor and Fuji Television***

1. Background Story
2. Strategy and Tactics
3. Japanese Style Ending: “*Wakai*”
4. Philosophical Discussion

### **“Tsunami” II :**

#### ***Construction of New International Airport — Centrair***

1. Rising Regional Community Power and Fallen Central Bureaucracy
2. Competitive Advantages for Privatization & New Business Concepts
3. From Car Maker to Airport Maker with Toyota Production Ways
4. Development of Hospitality Industry and Expo. Business in Nagoya

### **“Tsunami” III :**

#### ***Unchanged Corporate Culture : Success in Continuity of the Toyota Family***

1. The Map of the Toyota Family Executives over the Generations
2. CEO Change Model from the Old to the Young Generations
3. The Dual Structure of *Ie* (Family ) and Western Management Styles
4. Global Competition and Risk Management for the Future

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“Tsunami” II : Construction of New International Airport — *Centrair* and

“Tsunami” III : Unchanged Corporate Culture : Success in Continuity of the Toyota Family will be separately presented.

## **Tsunami I : *Sun Tzu's War Style* (孫子兵法) of M&A: Livedoor and Fuji Television**

### **“Tsunami” I Outline**

- Background Story
- Strategy and Tactics
- Japanese Style Ending : “*Wakai*”
- Philosophical Discussion

### **Background Story**

Nippon Broadcasting Company (hereafter called NB) is the parent company of Fuji Television Company (hereafter called F. TV). Both companies have successfully built the “Fuji Sankei” Group, newly established in postwar Japan, as a large and profitable corporation of the mass media industry.

As shown in Chart 1, F. TV owns several subsidiary and affiliated companies. Thus this chart shows the Fuji Sankei Group investment structure along the core companies line of NB — F. TV which mutually own the corporate stocks of each other. Those companies under the umbrella of NB — F. TV include a lot of well established companies such as the Sankei Press, Sankei Real Estate Company, Yokohama Stadium, Professional Baseball Team (*Yakult*), Pony Canyon Music Company and so forth.

F. TV announced a TOB (take over bid) of NB. In other words, F. TV which is the ‘son’ company of NB decided to buy the ‘father’ company (NB) in the open market of the Stock Exchange. This indicates how the TV industry in Japan has grown in comparison to radio broadcasting.

Out of the blue, surprising traditional business practice and discipline, Livedoor Company which is headed by a young business man acquired NB stocks to the tune of more than 51 percent during the off business hours after the open market operations had ended. This young man by the name of Horie, Takafumi had founded and led Livedoor Company at a high speed growth ratio with an untraditional aggressiveness in the internet business.

The corporate outlines of Nippon Broadcasting Company, Fuji Television Company and Livedoor Company are shown in the following:

	<b>NB</b>	<b>F. TV</b>	<b>Livedoor</b>
Founded	1954	1959	1996
Capital	¥173,441 million	¥505,606 million	¥53,556 million
Number of staff	203	3,225	1,019
ROE	3.2%	4.9%	10.8%
Number of shareholders	5,314	99,048	154,138
Evaluation		AA-	
CEO	Kamebuchi, Akinobu	Hieda, Hisashi	Horie, Takafumi

The rapid growth of Livedoor Company was generated by implementing financial tactics in the stock exchange by splitting Livedoor stocks (ex. 1 stock for 1,000 shares) to facilitate financing a number of merger and acquisitions (M&A) in ITC business areas such as homepage creations, portal business, financial services, internet consulting, net media, e-commerce, cell phone and soft businesses, publishing, stock brokerage, etc.

To finance this acquisition of NB stocks, Livedoor borrowed ¥80 billion from Leyman Brothers, one of the leading U.S. financial institutions in worldwide operations. Leyman Brothers and Livedoor agreed upon the issuance of convertible bonds and the convertible price was guaranteed at 10% lower than the market price of Livedoor shares at the conversion time of the corporate bonds to the corporate stocks.

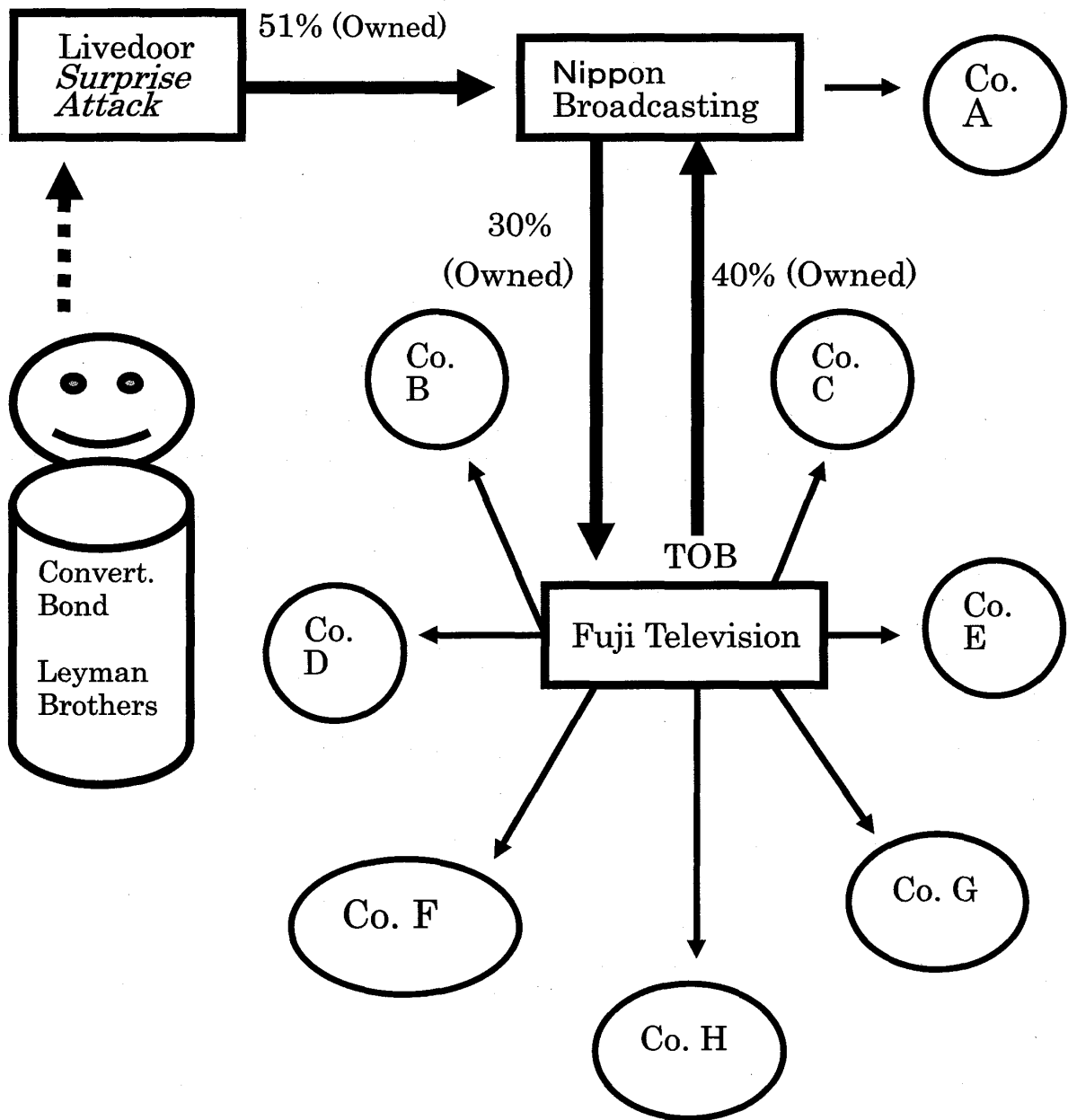
Livedoor's acquisition of NB stocks is ultimately intended to own and control F. TV in order to integrate the internet business with the media business. Therefore, F. TV has to defend itself against the TOB in spite of the fact that F. TV launched a TOB. This is an unusual story in U.S. practices, but happened due to the mutual ownership of stocks between the little parent company (NB) and the big child company (F. TV) in the Japanese business practice.

Chart I illustrates the aforesaid M&A event involving 4 parties, that is, Nippon Broadcasting Company as the parent company, Fuji Television Company as the child company (now grown bigger than the parent) and its subsidiary or affiliated companies as grandchildren companies, and Livedoor which manipulated the Sun Tzu Surprise Attack to buy NB stocks in competition with Fuji Television Company. Leyman Brothers are with Livedoor.

To summarize this TOB battle, the following story took place in the course of applied tactics for TOB and TOB defense by the Fuji Sankei Group and Livedoor Group.

Chart I:

# Fuji Sankei Group Investment Structure



## **Fuji TV / Nippon Broadcasting and Livedoor**

### **— TOB Battle Outline, 2005 —**

- Jan. 17 — There is a TOB announcement from Fuji Television which will go through in the due procedure of the open market acquisition schedule to purchase more than 50% of Nippon Broadcasting.
- Feb. 8 — Livedoor has purchased 35% of Nippon Broadcasting stock at the Tokyo Stock Exchange after business hours.
- Feb. 23 — Nippon Broadcasting announces issuance of a large amount of new stock acquisition rights of Fuji TV.
- Feb. 24 — Livedoor asks the Tokyo Regional Court to stop this issuance of new stock acquisition rights.
- March 7 — TOB of Fuji TV reached 36.47% of Nippon Broadcasting.
- March 11 — Tokyo Regional Court decides to stop the issuance of new stock acquisition rights. Thus, Livedoor wins in the court.
- March 15 — Fuji TV raises its annual dividends from ¥1200 to ¥5000.
- March 22 — Fuji TV announces registration of ¥50 billion (\$476million, ¥105 / \$1) of new stock. This is a defensive action against the TOB or a 'poison pill.'
- March 23 — Tokyo High Court moves toward final decision to stop issuance of new stock acquisition rights for Fuji Television.
- March 24 — Nippon Broadcasting leases their stock holdings to Soft Bank Investment (SBI). SBI becomes the major stockholder. SBI CEO Yoshitaka Kitao declares: "Pres. Horie of Livedoor has barged into a stranger's house and has tried to make an unwelcome takeover." (SBI is the 'White Knight.')
- March 25 — Livedoor announces a majority takeover of voting rights of Nippon Broadcasting.
- March 27 — Fuji TV makes a heretofore unprecedented announcement: "We will discuss plans for our henceforth relations."
- April 1 — Livedoor announces that they have taken over a majority share of Nippon Broadcasting stock.
- April 12 — Livedoor stock falls to the final market price of ¥293 after the split up of the stocks.
- April 18 — Fuji TV and Livedoor announce a fundamental agreement after a peaceful resolution: 'Wakai.'

## Strategy and Tactics

Globalization is taking place not only in the real economy of manufacturing & marketing, but also in the non-real economy like the financial economy of money games. This heretofore introduced M&A event has created a big issue in Japan regarding recent globalization and restructuring of the traditional business community as well as jolting the mindset of 'old-time' business leaders.

To global financiers, specifically to U.S. financial institutions, present-day Japan is quite an attractive target to make money in the short term. In other words, there are abundant opportunities for M&As in Japan.

American ways of M&A have not been fully introduced into Japanese companies and as such, they are not accustomed to practicing M&A; especially this is the condition among the senior boys of the old network leaders in the Japanese business society.

Thus, the battle case of Livedoor and NB / F. TV in the stock market made all the people involved in disputing whether or not Livedoor had conducted the matter with fair competition and market principles within the unavoidable trends of globalization.

Simultaneously we are forced to become aware of strategies and tactics in both TOB and TOB defense which are applied in the U.S. style of global business. Japan has been relatively free of U.S. forms of M&As and truly recognized the need to improve the knowledge of these M&A processes implemented by U.S. style business practitioners.

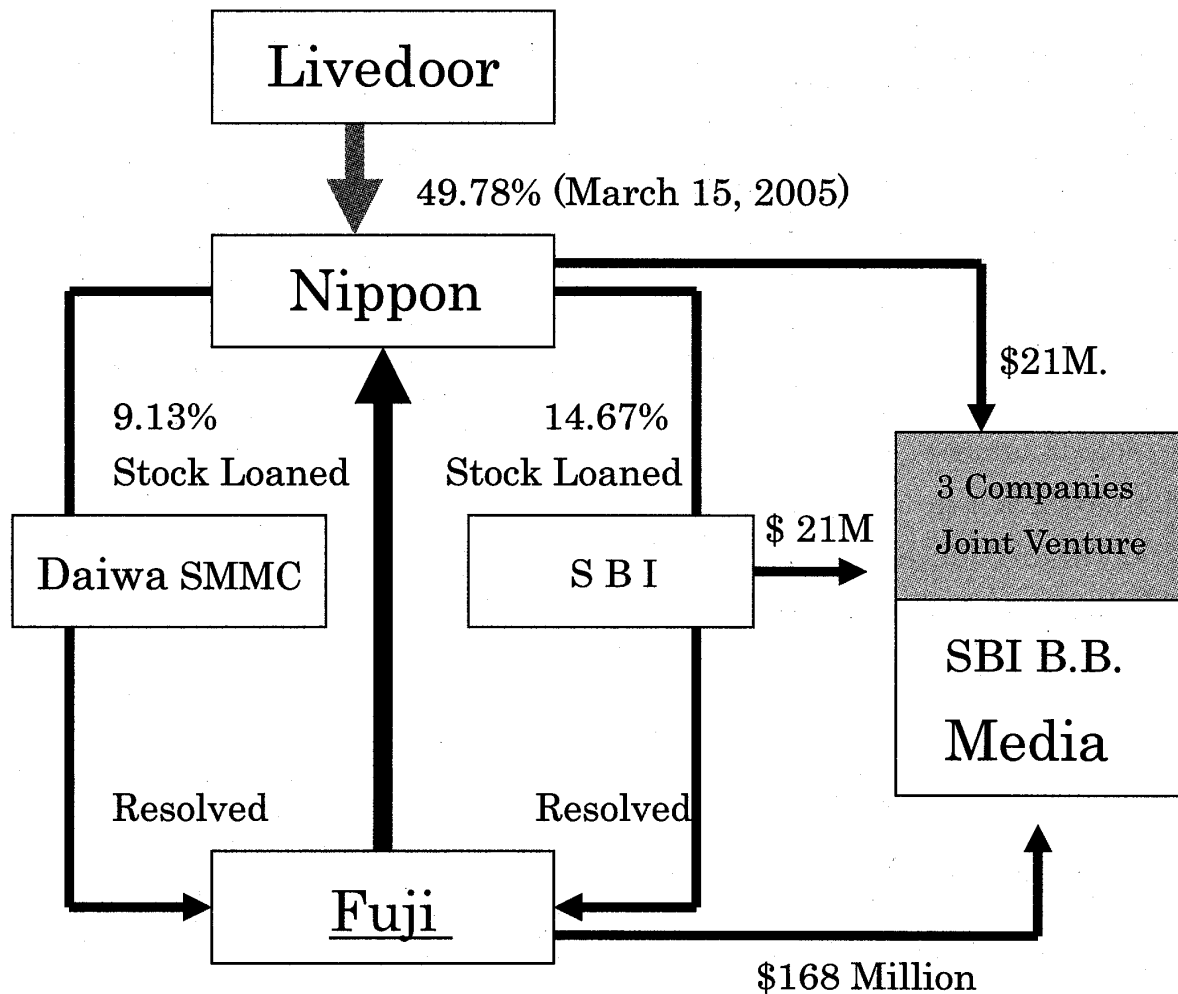
So, let us summarize the American strategies & tactics applied by Livedoor Company (☆ mark) and Fuji Television (Network) Company / Nippon Broadcasting (System) Company (★ mark) in the following:

- ★ Take Over Bid (TOB) : Fuji TV & NB
- ☆ Surprise Attack: Sun Tzu's Strategy by Livedoor (Leyman Brothers behind the Scene)
- ★ Poison Pills: Increase of Stocks Issued by Fuji TV.
- ★ Crown Jewels: Sales of Resources by Fuji TV.
- ★ White Knight: Strong Assistance by Soft Bank International.

Chart II shows the total picture of investors aiming at acquiring the Nippon Broadcasting Company stocks in the stock market and illustrates TOB and TOB defense executed by involved companies.

Chart II

## Investors Around Nippon Broadcasting Company March 15, 2005



Source: The Asahi Shinbun, March 25, 2005.

### Japanese Style Ending : “*Wakai*”

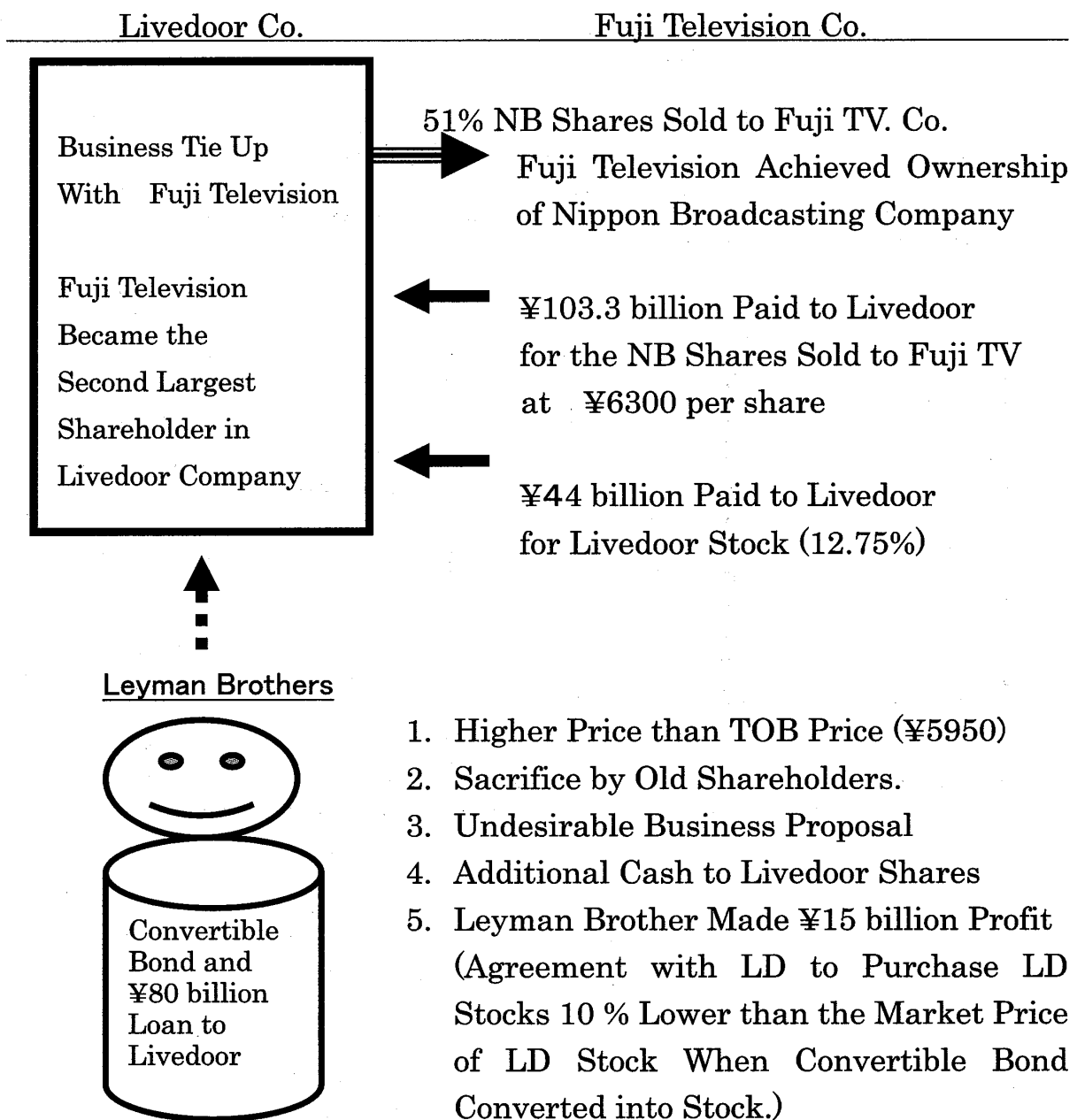
Japanese companies are likely to favor a peaceful resolution in place of formal court procedures. This pattern was followed in the Livedoor & Fuji Television Case.

The following Chart III shows the result of a peaceful ending in the Japanese way.

Chart III

“*Wakai*” (和解), Peaceful Ending in the Japanese Way

Green Mailer ? and Back Man Defense ?



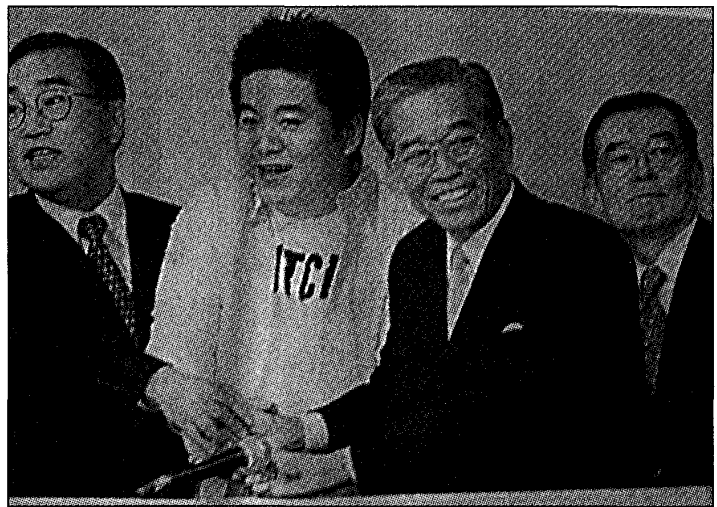


The peaceful resolution, or "*Wakai*" is usually arranged by the leading financiers in Japan. Therefore, there were two hidden men of Japanese major banks who played a role of "go-between" for the involved companies.

The picture shown below (The Asahi News Paper, April 19, 2005) explains "*Wakai*" and smiles of involved parties, left to right, Mr. Kanebuchi (President of Nippon Broadcasting), Mr. Horie (President of Livedoor), Mr. Hieda (Chairman of Fuji Television), Mr. Murakami (President of Fuji Television). This picture symbolizes the kid's challenge to the old boys to internationalize the Japanese economy.

"Fuji Sankei" Group headed by Fuji Television is now very happy to acquire the majority shares of Nippon Broadcasting.

Also, Livedoor is happy to become a member of "Fuji Sankei" Group by selling the acquired stocks of NB to Fuji Television.



However, is this "*Wakai*" worth believing of what is right as reported in the mass media and via corporate publicity? U. S. business practices would categorize this ending into Green Mailer and Back Man Defense, if they analyzed this kind of M&A story.

In the beginning stage, the young president, Mr. Horie of Livedoor with no necktie in the picture, inspired business innovation by acquisition of Nippon Broadcasting shares with final intention to acquire Fuji Television, a subsidiary company of Nippon Broadcasting Company.

But at the final stage he gave up his ambition to control "Fuji Sankei" Group with majority ownership of the related corporate shares. And he sold his shares to Fuji Television to gain profits as a speculating investor. This is a Green Mailer action in the U. S. concept.

In the meantime Fuji Television decided to purchase Livedoor stock for the condition of "*Wakai*". This implies a Back Man Defense in the U.S. concept as a tactic of TOB defense.

"*Wakai*" is thus a face-saving tactic for each party. In reality, the younger generation defeated the older generation by getting more money and securing future business opportunity. But, the older generation could preserve management sovereignty as it is.

## Philosophical Discussion

The aforementioned M&A case created a big dispute as to the truth of capitalism and the corporation. Across the nation, people discussed: “What is the Corporation? What is Capitalism?”

Globalization is promoted in 3 stages: at the national level, organizational level or company level and individual level.

Livedoor may be the globalization stage at the individual level while “Fuji Sankei” Group is the globalization stage at the national level or organizational level.

The core topics discussed in this event could be summarized in the following:

1. Business Ethics vs. Law: Is Livedoor an outlaw or a fair game player?
2. Capitalism vs. Traditional Culture: Have traditional values been preserved or not?
3. The Older vs. the Younger Generation: Seniority respected or rejected?
4. Cash Capital vs. Human Capital: Does money control humans or not ?
5. Another Type of Globalism: ie: A New World Order & Legal System, proposed or not ?

We are not denying globalization and capitalism. But, we are afraid of misunderstandings and pre-mature knowledge of American style localism as well as globalism which are linked to financial strategies and tactics.

Since this case of M&A, a number of Japanese companies have begun developing TOB defenses in conjunction with legal system improvements by the central government.

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### Reference Books in Japanese:

Motofusa Murayama: *Asian Management: International Business & Management Anthropology*, 2002, *Airport Culture*, 2003, Bunshindo; *Theories of International Business*, 2004, Souseisha; *Strategy & Philosophy*, 2005, Bunshindo.