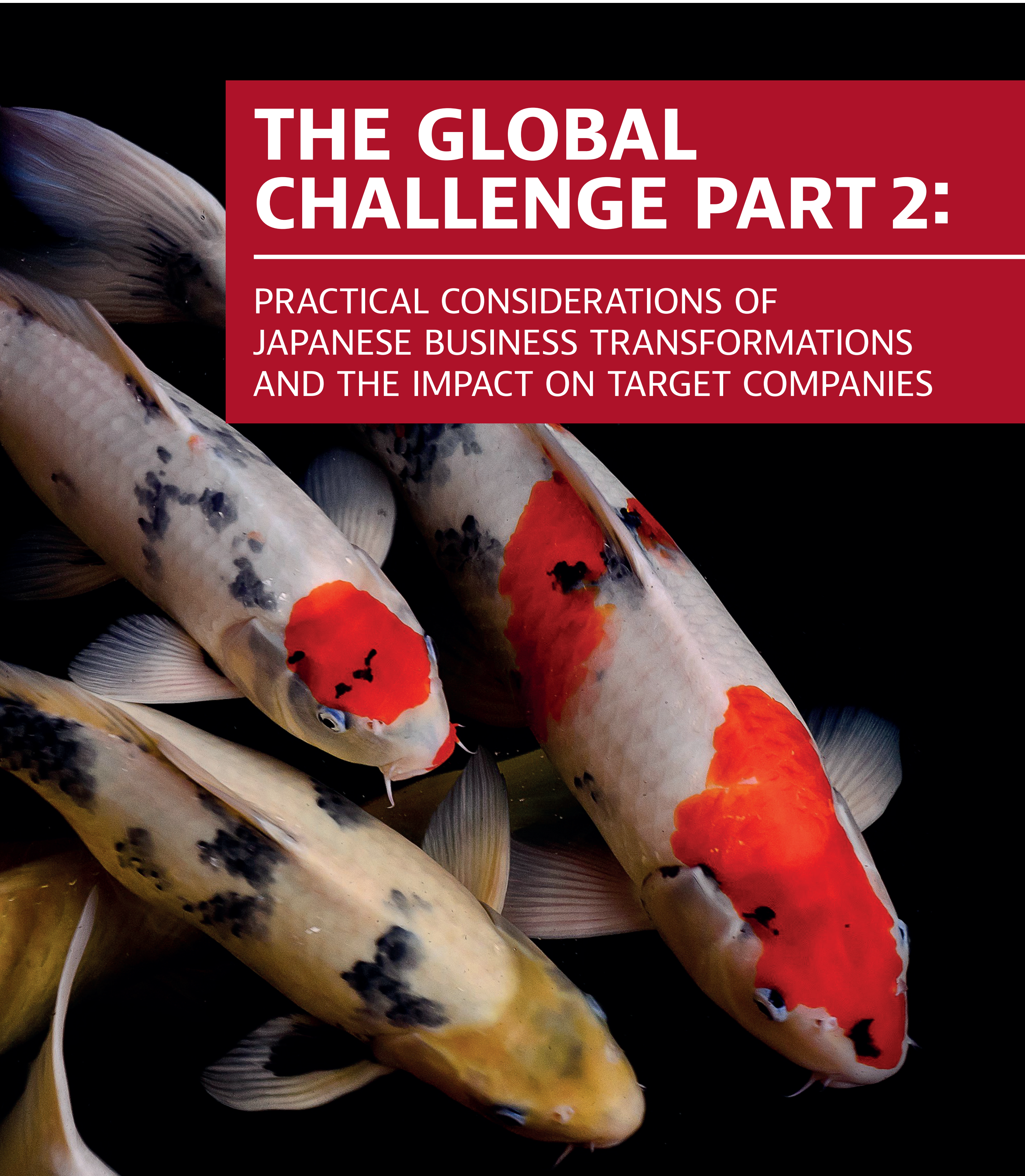
THE GLOBAL CHALLENGE PART 2:

PRACTICAL CONSIDERATIONS OF JAPANESE BUSINESS TRANSFORMATIONS AND THE IMPACT ON TARGET COMPANIES



Hiroshi Kondo
Head and Partner of Corporate/M&A, Baker McKenzie, Tokyo

Global transformation continues to be the centerpiece of corporate strategies around the world, and for corporations in Japan, business leaders are taking this concept to heart. It's easy to see why. Traditional industry leaders are being toppled by innovative upstarts. Digital disruption is rampant. So is economic uncertainty amid turbulence in Europe and China's slowdown. Most pressing of all, as the population of the domestic market shrinks, Japanese corporations are left with few options but to search abroad for growth. Change isn't just necessary; it's inevitable.

As one of the catalysts for this change, Japanese corporations are using cross-border M&A to engender the kind of transformational shifts in their operations and organizational structures needed not just to survive but thrive in today's competitive corporate landscape. In our first flagship publication, *The Global Challenge: Applying business transformations in corporate Japan,* we looked at the tactics Japanese businesses and their competitors in the US and Europe were using in their pursuit of transformational change via cross-border M&A. The results have painted an elaborate picture of the challenges and opportunities that await these companies as they pursue growth and global ambitions.

In our latest research as part of the Global Challenge series, we shift gears, revisiting the corporate respondents in our survey pool from last year but focusing on the companies they had acquired to examine perspectives from the sell-side/target business.[1] This has provided further insight into the process of global transformation, specifically what works, what does not, and the different approaches the Japanese and their international peers are taking to yield value from cross-border dealmaking.

The findings thus far have been incredibly insightful. Despite the complexities of cross-border M&A, respondents were largely pleased with the results of their recent acquisitions by a foreign buyer. However, there is still room for improvement as many companies, and particularly those from Japan, face ongoing challenges in certain areas that are preventing them from fully achieving their aim of becoming a truly global organization.

1 *Full details on survey methodology and respondents available on page 46.*

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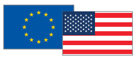
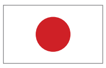
Key findings

The majority of respondents at companies acquired by US/European (96%) and Japanese corporations (92%) said that their recent transformations were value-creating success stories. However, noticeable differences emerge among those who rated theirs as exceeding expectations and targets:



64%
of those at US/European-acquired targets



52%
of those at Japan-acquired targets

Our research has identified several key areas where differing approaches and priorities contributed to these differences in the most favorable outcomes between Japanese and US/European corporates...

CORPORATE CULTURE

Merging and managing different corporate cultures was seen as the top challenge among both respondent groups, but one that was particularly sensitive to target employees being acquired by Japanese corporates.

Culture was also a change that most respondents said would not be easily accepted. However, it was not a point that would necessarily be a "deal breaker" if handled appropriately.

Respondent sentiment toward the degree of understanding of target corporate culture varied widely between Japanese (63%) and US/European (74%) companies, creating uncertainty among employees regarding the new owner's ability to manage change within the organization.

Better understanding of corporate culture often led to higher levels of change management commitment from various parties at target organizations, an area where Japanese corporates may not be yielding a full buy-in from their targets' workforces.

TALENT RETENTION

Talent retention often started prior to deal close, with 62% of both Japanese companies and US/European companies identifying high performers prior to finalizing the terms of a transaction...

...however, only 42% of Japanese acquirers involved these employees in the retention process to select other key talent, compared to 57% of US/European companies.

By failing to take these steps, companies from Japan may be missing out on opportunities to retain top talent, as indicated by differences in the effectiveness of retention programs: 59% very effective compared to 68% for US/European companies.

Looking at the launch stages of talent retention, sellers/targets in deals involving a Japanese buyer generally began the process later than those in deals involving US/European companies.

IT INTEGRATION

Prioritizing IT can have a positive impact on the overall success of an integration, according to both respondent groups...

...however, almost a quarter of respondents said that the buyer in their recent transaction did not initiate an IT integration plan.

This was despite the fact that equally large numbers of respondents – 22% of Japanese and 29% of US/European – agreed that combining IT platforms and systems created the most setbacks to the transformation process.

INTEGRATION CHALLENGES AND DIFFERENCES

For both respondent groups, integrating finance and internal controls and trying to yield tax synergies posed the greatest challenges or setbacks during the integration phase. Integrating management functions was another shared challenge area, although more so for Japanese companies.

IT/Systems integration was another problem area that demanded substantial time and resources.

Integrating research and development (R&D) departments was a far greater challenge for companies acquired by Japanese buyers (26%) than their US/European counterparts (9%). Similarly, human resources was a larger problem area for the former group (22%) than for the latter (11%).

Antitrust and compliance issues may be preventing smooth integration and transformation for Japanese companies, setbacks that could be mitigated by using advisors to overcome regulatory barriers and adhere to legal frameworks in target geographies.

The elements of success

Global transformation can take several forms, be it strategic or financial in nature or a combination of the two. Yet whatever the objectives, they can only be achieved when participants in the transaction, especially those within the targets of acquisitions, are fully informed of and committed to the process of change.

In our research this year, a surprisingly large number of respondents said that their recent transformations were successful (Figure 1). Sometimes this meant that performance goals were met, while in other cases, success signified a relatively smooth transition in ownership and integration with a new parent organization.

More striking differences in this sentiment, however, begin to emerge at the higher levels of the success spectrum. Here, the split between Japanese and US/European companies whose transformations were rated as exceeding expectations are more pronounced: 64% for US/European companies but only 52% for those from Japan. While still respectably high given the complexities of cross-border M&A and business transformation, these differences raise the question: What are Japanese corporates doing, or not doing, in their interactions with target organizations?

The feedback from respondents, as well as our experience advising on various international acquisitions, gives us a few answers. More importantly, it provides us with several telling examples of best practices for other acquirers to follow. From this collected research, two themes stand out as causal to these differences in success:

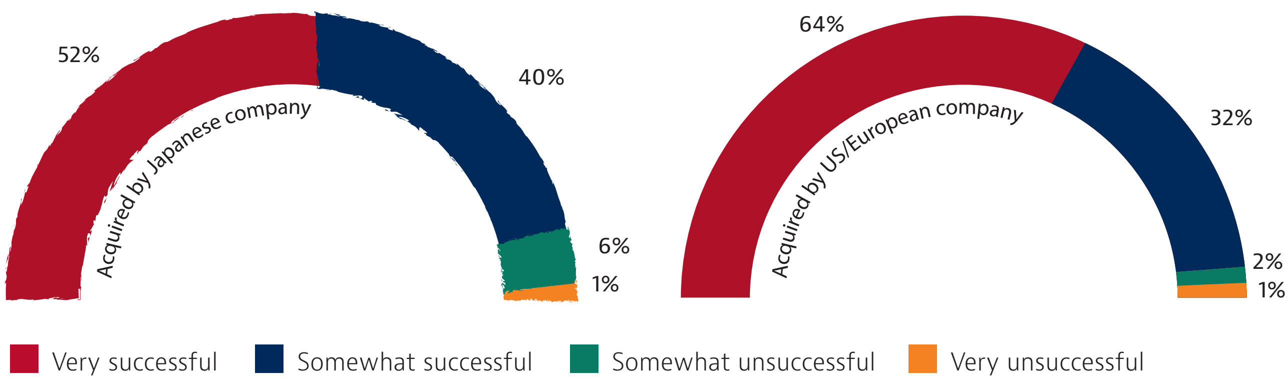
- The approach different buyer groups take to integration
- The experience and capabilities of buy-side leadership

Comparing approaches to integration

The timing and speed of the transformation, specifically the integration phase, can have a much greater impact on the success or failure of the entire process than most dealmakers realize. Indeed, differences in the approaches taken, especially when considering the intricacies of national and corporate cultures, may leave corporations vulnerable to missteps and lost value.

For instance, Japanese acquirers tend to lean on the side of caution, preferring a slower, calculated approach when merging staff and operations. Japanese managers

Figure 1: **Please rate the success of your recent global transformation.**



Numbers may not sum to 100% due to rounding.

and M&A teams will map out a detailed blueprint for the entirety of the project, inclusive of contingency plans and simulations designed to anticipate best and worst case scenarios.

While the result is a comprehensive plan that helps to ensure business continuity at target and buyer firms throughout the transformation, this heavy early-stage investment of time and resources often means Japanese management teams will resist correcting course after launch.

This in effect makes it difficult to address unforeseen challenges as they arise. While harmless in its intent, when engaging companies in Western markets, this approach can irritate target employees who may be accustomed to faster decision-making and execution. Worse still, it can be seen as a sign that Japanese managers are not capable or competent enough to run an effective integration.

Conversely, the method often adopted among US and European companies embodies a spirit of "launch first, find solutions later" that allows them to act swiftly and set a more engaging tone for the transformation. This approach emphasizes rapid, aggressive change while recognizing that unnecessary delays can cause disruption and lost momentum.

Indeed, tackling challenges as they arise as opposed to dedicating assets and planning beforehand means time and resources can be best applied to other parts of the transformation.

Who is leading?

Overwhelmingly, however, respondents applauding the high success rates were bound together by a common theme: active, aware, and expert leadership. In their recent transformations, these respondents said that buy-side leaders provided the insight and direction necessary to navigate the seas of change. From start to finish, they communicated goals and expectations effectively, implemented programs to ensure that employee engagement occurred and remained active at various points, specifically during integration. In this sense, these leaders provided a start and end point for the transformation, providing support and guidance along the way.

The question of "who" is leading the transformation and what skills they bring to the table can be among the most critical elements of the deal. It is a point we analyze on page 10 in "Deal perspectives" and other case studies throughout this report.

For example, while elaborating on a recent transformation led by a Japanese corporation, the senior director of M&A at a US-based industrial company said, "Our recent transformation was a huge success because managers at the acquirer established effective communication channels and led outreach to understand and help us achieve our goals."

The collective sentiment, generally, is that active leaders help build rapport and effective communication between buyer and seller. This can prove invaluable when bridging differences in corporate and national cultures, which is among the first tasks necessary to launching integration programs. Even when national language barriers arise, these leaders preserve the language of the deal, setting the tone and establishing channels that enable all parties to remain involved and aware of changes taking place.

At the other end of the spectrum, when transformations produced only half-successes, or flat out negative results, respondents pointed to mismanagement or general inadequacy among those making the decisions. As a case in point, the CEO of an Indonesian financial services company (acquired by a Japanese company) said, "Our integration failed because the acquirer and our own leaders failed to find common ground on a direction for the transformation and thus lost support from middle management and employees. As a result, once the integration commenced, it was a slow, arduous process and didn't create the kind of growth we had hoped for."

Focus areas

From our ongoing research into international M&A and our specific focus on sell-side sentiments this year, we have identified four key areas where Japanese corporates may be missing out on value opportunities due to their approach to transformation or a lack of leadership to drive these efforts. These are areas or parts of the process that may persistently challenge corporate Japan, but that once overcome can pave the way to more promising growth and expansion as global corporations.

These areas involve:

1. Managing corporate cultures

2. Identifying and retaining talent

3. Addressing challenges and change opportunities during integration

4. Influencing the IT integration process

Deal perspectives

Capable, competent leaders play an important role in the success or failure of transformations, especially when these initiatives span across national borders. We ask dealmakers: Who were the most influential people – on both the buy-side and sell-side – and what was their role in your recent transformation?

SELL-SIDE
MICRO CLINIC INDIA, India

Our primary promoter was our managing director, who founded the IT company in 1991 and helped grow the business over the course of 23 years. He was actively involved in the transaction from day one, providing a high-degree of transparency during the due diligence phase and playing an integral role in integrating systems and staff with the buyer (Hitachi). This acquisition was the next logical step in Micro Clinic's growth and our managing director wanted to make sure that the entire ecosystem was positive and produced the desired results for employees, customers, and the new owners.

As for the buyer, we were impressed with their handling of the transformation. Hitachi was no newcomer to the Indian market and this was apparent from the start. Their specialized M&A team was well versed in the process of integrating businesses and navigating the sometimes perplexing Indian regulatory and legal systems.

BUY-SIDE
HITACHI SYSTEMS, Japan

In general, we assemble a specialized M&A team for all of our transactions, but in this one it was even more important to take this step. India is a unique market which has intricacies in the business and social environment that can be intimidating to foreign investors. There are national and then state-level differences and then city-level differences as well, not to mention socio-political conditions divergent from those in Japan, all of which we needed to understand.

This specialized team always has our CEO and head of finance at the helm. We then pick and choose the remaining team members based on their experience with the target market and industry and the value they can bring to the transaction. This is often members of our strategy, operations, R&D, and marketing departments, but is also inclusive of insight from our HR heads who help address sensitivities in the human capital component of these cross-border transformations.

In this particular deal, the team also consisted of external advisors who were valuable in executing the acquisition successfully and providing ground-level insights.

BAKER MCKENZIE INSIGHT

There is no single magic formula in terms of assembling the best team to influence the transformation and guide it toward success. However, there are characteristics to look for in participants and figures that can lend support to the process. These include:

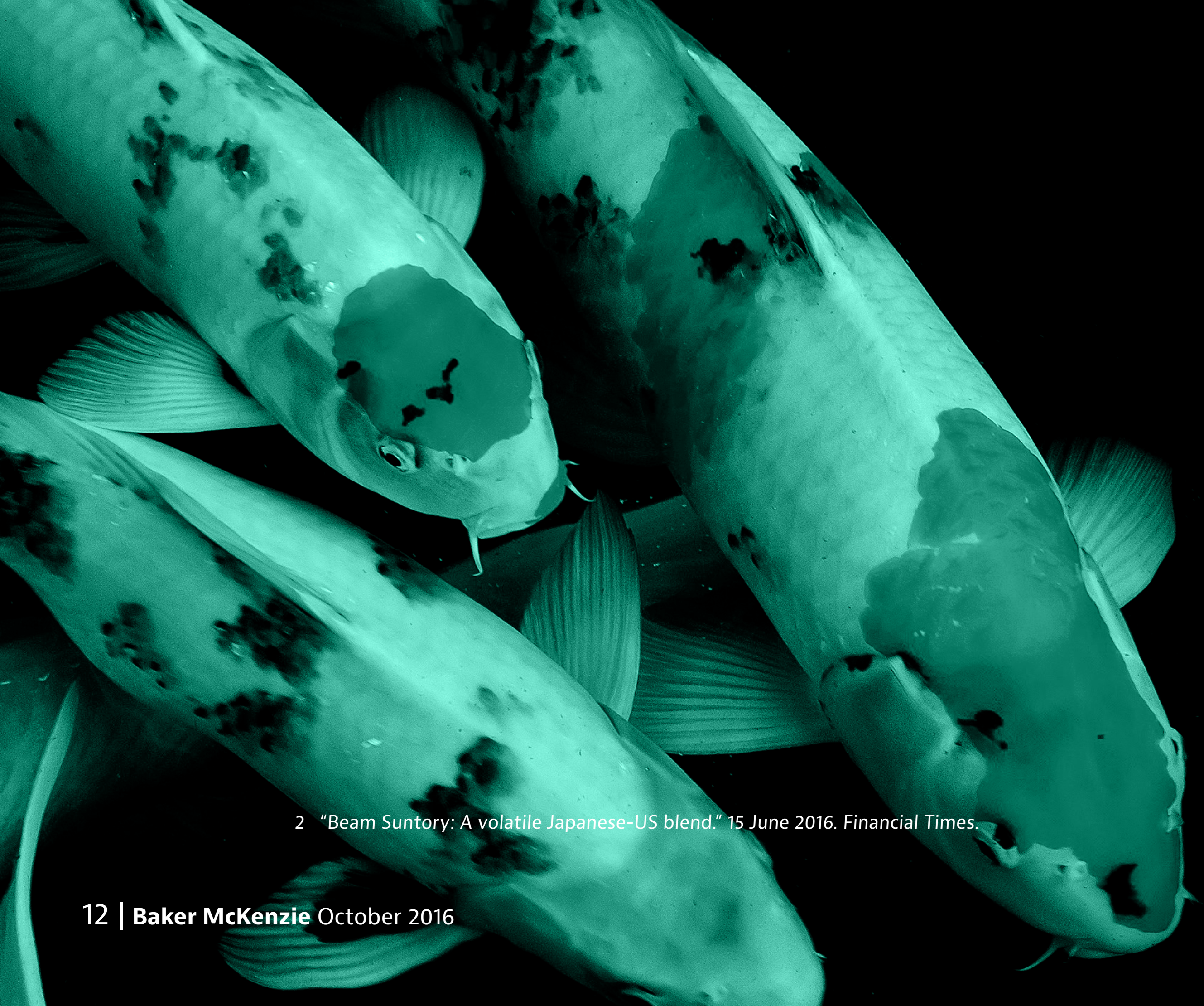
- Seniority: Leaders need not come only from the highest ranks of the organization, and mid- to senior-level individuals should also be considered.
- Familiarity: Pick people who "know the issues best".
- Commitment: Select a team that includes highly motivated individuals who have the energy and aptitude to deal positively with the inevitable 'bumps in the road' and to take a long-term approach to the transformation.

- Kirsty Wilson, Head of the Global Transformations Group (London, UK)

Merging and managing corporate cultures

Addressing cultural differences is often one of the first challenges business leaders face during transformations involving cross-border M&A. In both of our Global Challenge surveys, merging companies with different corporate cultures was the biggest problem area and cause of setbacks, particularly for deals involving a Japanese buyer. Among respondents this year, reshaping or making perceived improvements to culture was one of the top changes that would not be welcomed by employees at the acquired firm (Figure 2).

Japanese beverage giant Suntory ran into similar troubles during its acquisition of US spirits maker Beam in 2014. As part of the integration, executives at Suntory proposed minor adjustments to the bourbon distilling and production process at Beam, a formula perfected by generations of the Beam family. Feeling that their proud heritage was being insulted, the suggested changes were ones Beam managers could not accept. The damage from the exchange strained relations at a point when both sides were already wrestling with ways of making the collaboration a success.[2]



2 *"Beam Suntory: A volatile Japanese-US blend." 15 June 2016. Financial Times.*

Describing a similar situation during acquisition and integration with a US-based firm, the CFO of a Ghana-based financial services company said, “Adopting a foreign corporate culture was initially a huge challenge as we had nothing in common and hence the employees were slightly skeptical of adopting a new way of working. Management at the acquiring firm seemed to recognize this discontent and specifically defined areas where we would need to change and areas where we could continue business as usual. The result was that employees were cooperative and began actively assisting with the integration of our business processes.”

As this example shows, merging corporate cultures need not be a deal breaker. As many respondents point out, addressing these issues begins with understanding the company cultures before implementing changes.

Elaborating on outreach by a Japanese company that recently acquired his organization, the director of finance at an Indonesian financial services

Figure 2: What issues were raised by employees as a “change” that they would not welcome during integration?

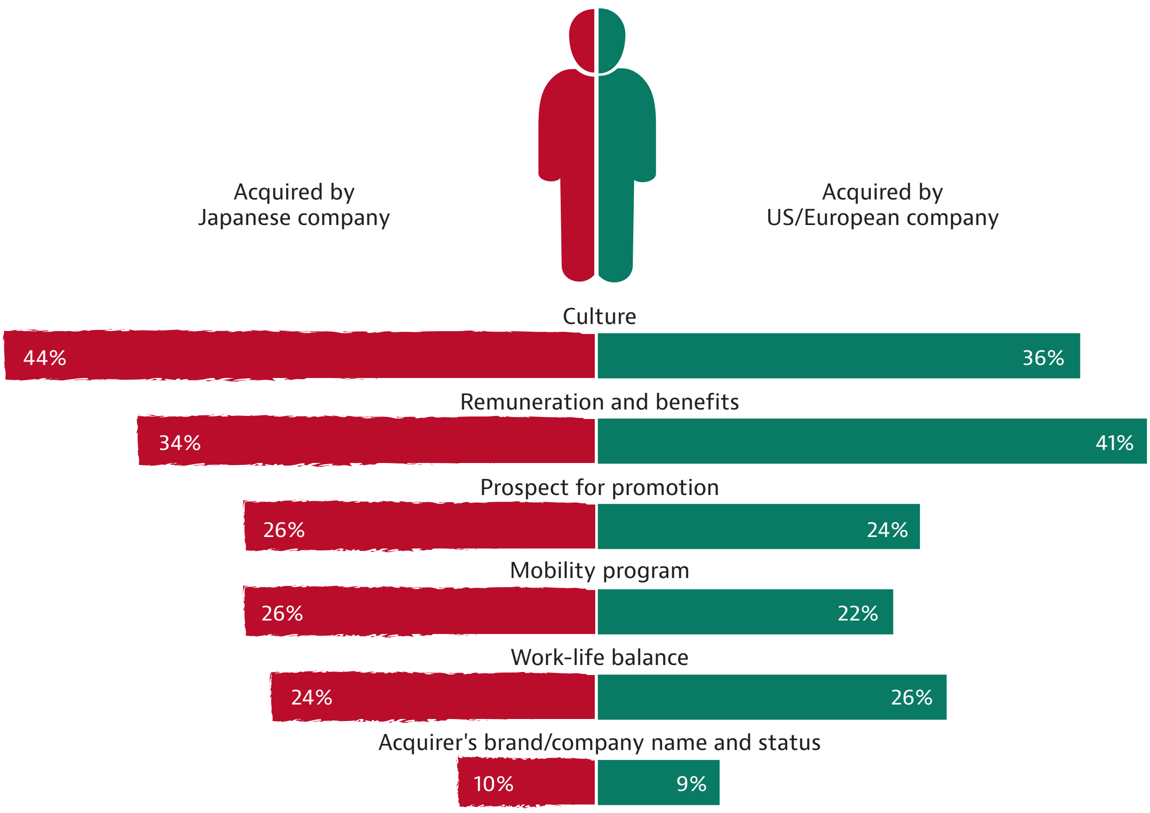
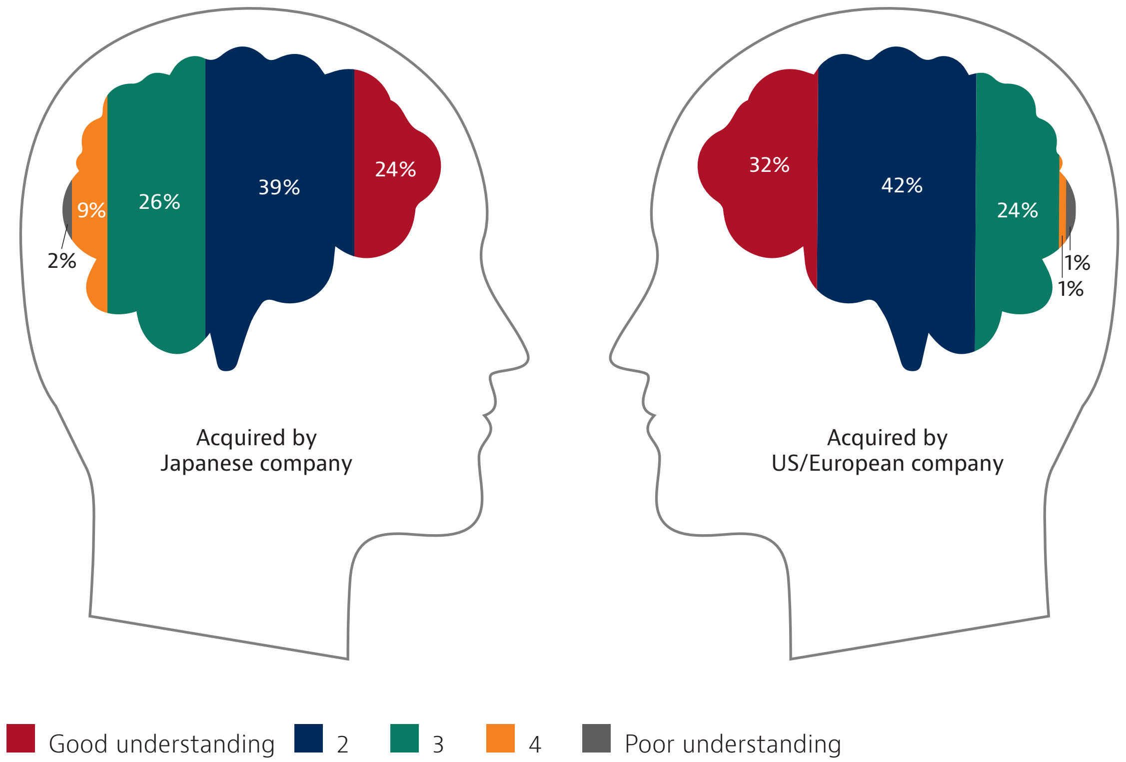


Figure 3: How would you rate the acquirer's understanding of your corporate culture?



company said, "The acquirer had a very clear understanding of our corporate culture because we gave them unrestricted access to our employees and other aspects of our business. This helped build mutual trust between buyer and seller and made the process more productive, which was our vision for this transformation from the start."

Other respondents had equally positive experiences and from our survey findings the general consensus is that buyers were willing to put forth the effort to develop a good understanding of corporate culture to secure support from participants at the target firm (Figure 3).

Seek first to understand

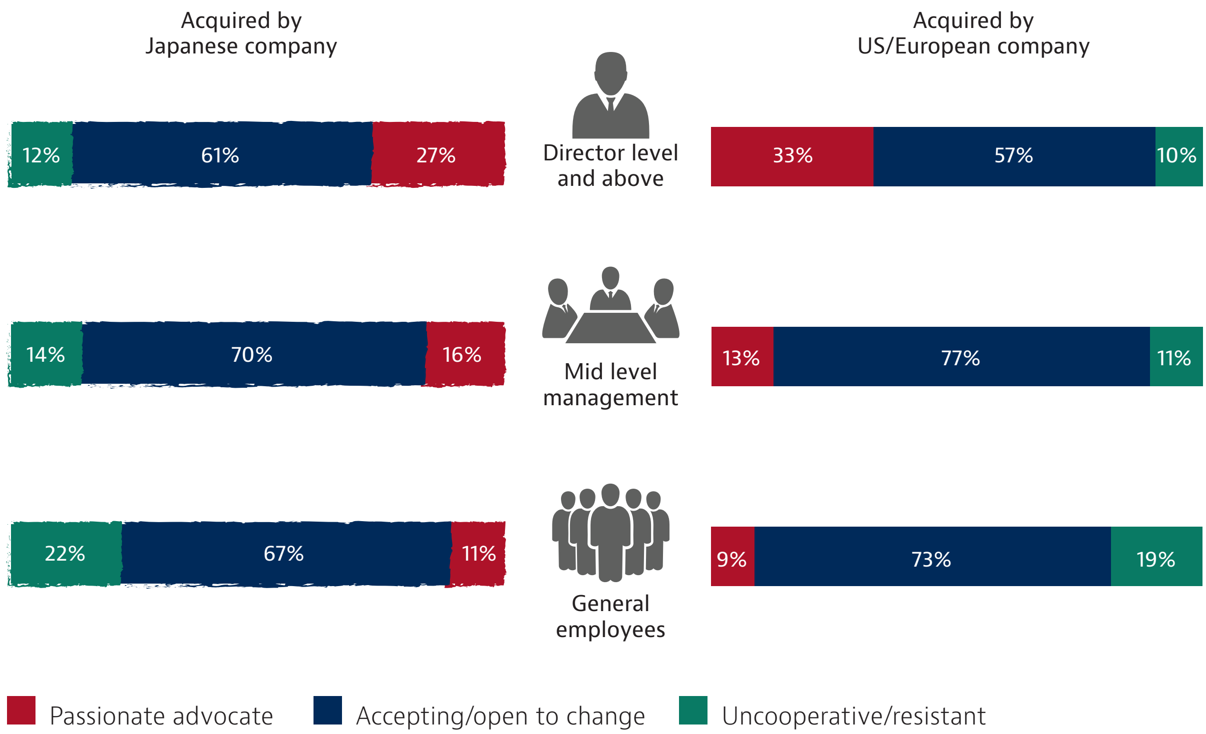
While both groups of corporates led outreach programs to understand the culture at their target organizations, respondents acquired by US/European companies said that their buyers had a greater understanding of and appreciation for their ways of working. The percentages show these stark differences: 74% for US/European companies but a smaller 63% for those from Japan.

While these differences are minimal, buyers who were perceived to have a better understanding of these cultures also secured higher percentages of change management commitment – in the form of passionate advocates or those accepting the change – from employees at various tiers of the target workforce (Figure 4).

As respondents noted, when this buy-in is secured, the transformation is likely to proceed with relatively fewer setbacks. When it is not – when employees are uncooperative or resistant to change – the result can be delays to integration or the achievement of short-term objectives. In the worst cases, it can result in a flight of human capital and destroyed organizational value.

In a telling example of cultures clashing, the CFO of a French tech company describes the

Figure 4: What was the level of change management commitment from each of the following parties?



Numbers may not sum to 100% due to rounding.

acquisition of his firm by a Japanese company as a struggle for hearts, minds, and value. From the start, miscommunication created unease among the workforce, and when abrupt changes to the proud culture at the French tech firm were eventually announced, the already heated disagreements boiled over into complete distrust between parties. The integration stalled, and before the dust settled, key employees vital to the tech firm's R&D were already heading for the exit.

Granted, leaving a target's corporate culture completely untouched may be impractical, especially when combining businesses, addressing redundancies, and trying to create a unified workplace, but business leaders must tread softly when making such changes, even minor ones. The ultimate goal should be to maintain employee satisfaction and prevent talent loss, secure buy-in toward the transformation, and maintain business continuity, a concept we explore in the next section.

BAKER MCKENZIE INSIGHT

Corporate cultures are distinct and impact both execution and integration, regardless of whether the corporation is based in Japan, the US or Europe, or any other country. However, this issue is seldom addressed directly because it cannot be measured numerically or soundly. Understanding the core values driving culture in both organizations and looking for alignment prior to, during and after execution of the transaction is an important factor in ensuring more successful outcomes.

- Jeremy Pitts, Managing Partner (Tokyo, Japan)

Deal perspectives

When cultures collide, the result can sometimes be a synergy-creating combination where workforces collaborate and business continues unimpeded. At other times, it can be a tumultuous affair. We ask dealmakers: Did differences in the abilities of people leading the global transformation and/or differences in corporate cultures lead to the departure of a number of key employees at the target firm?

SELL-SIDE

A Singapore-based automotive import-export company*

A few employees left once the deal was announced, but that was just an anticipated consequence and there wasn't much we could do about it. Some employees just weren't willing to wait around to see how the integration would unfold.

Overall, however, I'd say the transformation didn't have too much of an impact on our corporate culture. Some things were integrated, but most of our critical infrastructure, like finance and corporate governance, were left in place. I think the buyers knew that in order to maintain performance levels and ensure growth they'd need to allow us to operate as we had. So we were tasked with investing to ensure that performance while the buyers invested in facilities, machinery, and other equipment to enable us to meet performance targets. They also increased salaries and bonuses to make sure that despite changes in certain cultural aspects, employees were at least compensated for these changes.

BUY-SIDE

A Japan-based financial services company*

We utilize M&A as one of the main ways of achieving our growth targets and to enter new markets, and this experience has taught us a number of things about succeeding in cross-border acquisitions when engaging in global transformation. We use a team of specialized personnel to execute specific tasks and address cultural differences. They will assess the target's corporate culture and make suggestions on how to integrate parts that will contribute to the transformation or remove those that may be getting in the way.

Ultimately, we want to retain as many high-performers as possible, and this often requires that we make as few changes to corporate culture as possible.

**Company requested to remain anonymous during interview process.*

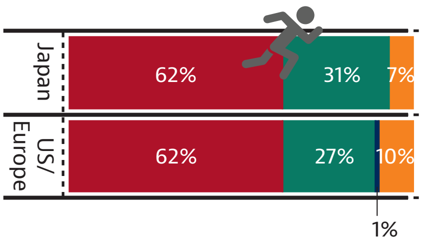
> “We want to retain as many high-performers as possible, and this often requires that we make as few changes to corporate culture as possible.”

Rethinking talent retention

To prevent a flight of human capital once a deal is announced, many business leaders are becoming more diligent in managing their human resources. For some, this involves deploying extensive long-term incentive plans (LTIPs) to reward employees who remain with the organization post-deal. However, a growing number of dealmakers are rethinking their approach to talent retention to create a workforce capable of driving the global transformation.

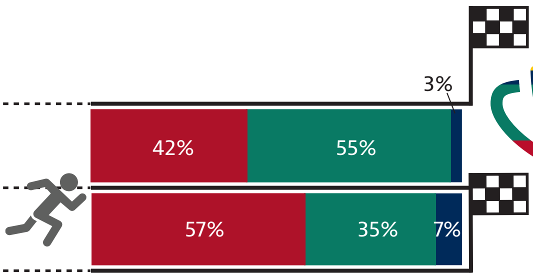
As is typical of the retention process, respondents said top-performing employees were identified, mostly in the early stages of the deal, and given equitable compensation packages to guarantee their continued service (Figure 5). At that point, their contribution to the retention process was fulfilled. However, many respondents noted that in their retention programs, these individuals' roles were far from over.

Figure 5:
Were high-performers identified prior to deal close?



Yes
No
Unsure
Did not respond

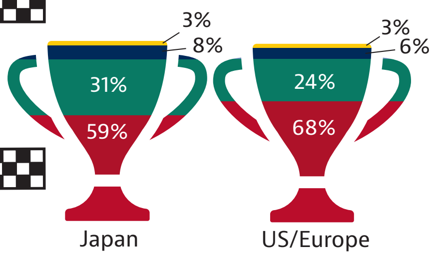
Figure 6:
If yes, were these individuals also involved in the retention process to select other key talent?



Yes
No
Unsure
Did not respond

Numbers may not sum to 100% due to rounding.

Figure 7:
Rate the effectiveness of the talent retention program.



Very effective
Somewhat effective
Somewhat ineffective
Very ineffective

Numbers may not sum to 100% due to rounding.

The best of the best

To reinforce the talent retention process, in some instances these high-performers were tasked with identifying other employees that could contribute value to the new organization (Figure 6). As the CFO of a US-based agribusiness company (acquired by a Japanese corporation) notes, "We chose employees early on that we knew would help pick out other top talent and act as ambassadors in promoting the new owner's culture within our own ranks. We introduced them to the new way of working that would be embodied during the transformation and the overall growth vision we'd be working toward. In this way, they identified employees who would also help us achieve these ends."

This instance in particular, however, seems to be the exception and not the rule among Japanese cross-border acquirers. Indeed, while 57% of US/European companies involved key talent in the retention process, only 42% of their Japanese counterparts took similar steps, as illustrated in figure 6.

For the majority of Japanese buyers, talent retention was carried out mostly from the top down, with respondents noting that these efforts were driven largely by high-level managers and dedicated HR teams on the buy- and sell-side. Respondents acquired by Japanese companies said their new owners preferred a more active hand in managing the retention process to gain a better understanding of the new workforce. By learning firsthand its strengths and weaknesses, buyers could determine how best to integrate departments and employee groups to mold a new company during the transformation process.

According to the CFO of a German energy corporation (acquired by a Japanese company), "While we started identifying key talent early in the acquisition process, these employees were not involved in retaining others at the firm. Management wanted to have direct communication with the general employees to develop a clear picture of what the workforce expected and what their individual demands from the new ownership would be."

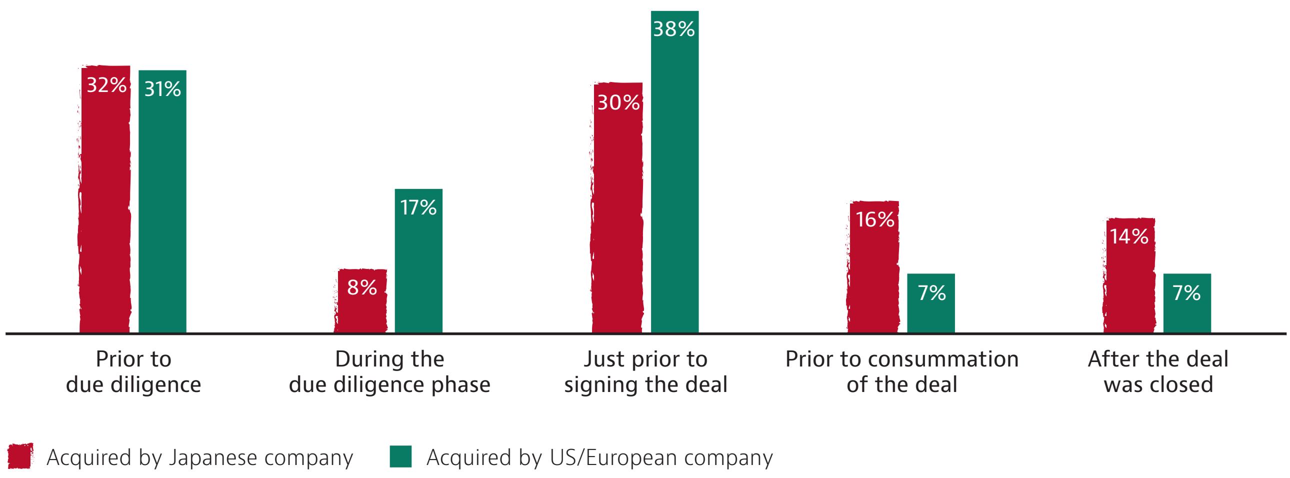
While this approach has its merits, failing to fully utilize these classes of high-performers could be having an impact on success rates among international acquirers (Figure 7). Indeed, in our study, US/European companies were seen to have been yielding better results in their talent retention efforts when compared to their Japanese counterparts.

Timing is everything

While including top-performers in the retention process can certainly bolster results, to a greater extent, success lies in timing. As a number of respondents agreed, the sooner these programs are launched, the better the odds that targeted talent will be retained. In recent transformations, seller/target-initiated talent retention programs were conducted mostly in the early stages of the deal (Figure 8). By acting early, these respondents said they were able to approach talent and begin working on new terms for their employment and placement within the organization.

Again, there were differences in the approaches taken by Japanese corporations and by their US/European counterparts. According to 30% of respondents acquired by Japanese buyers, talent retention did not start until after the deal was signed, compared to only 14% for US/European corporations. While most respondents in this camp noted that their retention programs were still mostly successful, delays of this nature can cause clouds of uncertainty to form. Without direction from the buy-side, and unable to act on their own, current employees may seek alternative job opportunities rather than wait for a definite answer to the future of their roles with the company.

Figure 8: When did the seller/target launch its talent retention program?



Missed opportunities: Additional value-add in talent retention and HR management

Fully tapping the human resources of a company acquired through cross-border M&A is one of the key areas where international acquirers can add tremendous amounts of value to their organizations as they strive to meet the global challenge. However, through our research into best practices in transformation and extensive experience advising clients, several areas stand out where Japanese corporates may be failing to yield the full value of talent as they transform into globally competitive businesses.

Building a global workforce

Acquiring talent is rarely the primary objective of global expansion strategies, yet creating a team of international talent – in essence, global corporate leaders with global insights and management expertise – should not be discounted for its ability to yield transformative change within an organization.

In the report, *The Global Challenge*, respondents from the US and Europe prioritized recruitment of top quality management and employees over their Japanese corporate peers.[3] Increasingly, Japanese corporations are following suit, taking over established, sizeable companies in developed markets to tap the international talent pool. This is allowing them to expand not only in the target's market, but globally. With an eye to the future, Japanese companies are also retaining and hiring foreign managers/directors with the intention of boosting growth and encouraging greater risk-taking through M&A to boost return on equity (ROE). These are steps they should continue to take to expand their global reach and perspective.

BAKER MCKENZIE INSIGHT

Recruiting quality, multi-lingual, multi-cultural talent in Japan has fast become a priority in the last decade. There has been an inevitable rise in the recruitment of native English speaking resources at corporate headquarters in Japan, people who not only bring the strength of a global language to the table, but also the experience and global brevity required to bridge potential gaps with other international target companies.

A huge plus is when these resources are also well versed in the Japanese language and culture. Japanese corporations are also looking for next generation talent that are proactive and creative – contrary to the more traditional recruitment process of prioritizing loyalty and active passivity. As such, the talent retained through foreign acquisitions is in and of itself, a valuable addition to the headquarters company.

Rina Sproat, Chief Operating Officer (Tokyo, Japan)

3 *Recruitment of top quality management/employees was the second to last objective of seven options chosen by Japanese and US/European respondents in describing their global expansion and global transformation strategies. By respondent class, those figures were 68% for US/European corporates and 59% for Japanese corporates.*

> The acquirer's reputation and global standing had a very positive impact on the integration.

Gender diversity

In addition to creating a global workforce by improving general diversity within the ranks, addressing gender diversity presents a similar value-adding proposition. In a 2012 survey of US corporate board members conducted by *Corporate Board Member* and consultancy Spencer Stuart, 80% said that diversity in the boardroom generally results in increased value for shareholders. A further 75% said they had taken steps to support boardroom diversity in the past three years.

In comparison, Japan may be lagging in this area given the prevalence of the traditional, male-dominant boardroom. Indeed, the share of board seats held by women in Japanese companies stands at only 3.1%, compared to Norway (35.5%), the UK (22.8%) and the US (19.2%), according to a 2014 survey by Catalyst. The diversity that these corporations embrace, or fail to embrace, can contribute heavily to a corporation's success, as different viewpoints can be of value in implementing new approaches to business, problem solving, and a variety of corporate priorities.

BAKER MCKENZIE INSIGHT

Diversity is a trend taking shape in corporate Japan, albeit slowly. The main challenge remains the lack of understanding and buy-in from top management. Senior managers still consider gender diversity as an issue of ethics or being "politically correct." They fail to fully recognize that diversity contributes immensely to the success of a corporation, because it is a key element in providing different viewpoints and skillsets to the workforce.

A long-term perspective on the inevitable "shrinking" of the Japanese population is also missing. Being gender diverse can attract a larger workforce, and can be a way to overcome serious talent management issues. Other challenges include a lack of support from the overall infrastructure and economy of Japan, including limited childcare, gender wage gaps, and the existent prejudice that women should adhere to traditional roles. While change is happening, Japan will need to roll out innovative solutions to enable more females and individuals with alternative lifestyles, as well as foreigners, to join the workforce, advance their careers, and contribute to corporate value creation.

- Kana Itabashi, Partner and Chair of the Diversity & Inclusion Committee (Tokyo, Japan)

“Destination employer” status

Building a strong employer brand can help in not only retaining employees, but attracting local talent in target markets as well. This can be highly beneficial when entering a new market as local talent with ground-level insights can contribute to establishing that initial foothold before embarking on expansion. While Western corporates have been effective at creating this “destination” status, Japanese corporates have struggled to achieve similar standing outside Japan.

According to the General Manager at a Belgian company acquired by a US-based corporation, “American companies are highly regarded globally. Their management teams are known for taking effective measures when making hard decisions, and while initial sentiment wavered when we were initially acquired, employees had little doubt as to the buyer management’s capabilities.”

There are, however, examples of Japanese corporates with long-term track records of cross-border dealmaking that have broken with this trend. According to the CEO of a Bermuda-based company acquired by a Japanese multinational, “The acquirer’s reputation and standing in the global market had a very positive impact on the integration phase because the ‘name’ boosted morale and motivated employees to perform better. Granted, there were differences in our working cultures and this hindered the process to some extent in the earliest stages of the deal, but the dedication and eagerness among employees helped us connect all dots to form an efficient business model.”

The CFO of an Indian IT services company reinforces this sentiment, stating that, “The [Japanese] company that acquired us was a huge corporation and had a reputable standing in the industry. Our employees were in fact happy as they expected substantial improvements and value-add to our existing processes, standards and policies. Our key talent did not leave the organization and our routine operations were undisturbed.”

BAKER MCKENZIE INSIGHT

As organizations become increasingly global, corporations around the world are scrambling to attract, recruit and retain the most talented employees. The opportunity to work for a prestigious corporation often exceeds other sources of motivation, such as hiring conditions or employment terms. While Japanese corporations have the advantage of providing quality products and services, their ability to communicate their activities and their attractions as employers – in other words, their branding abilities – remains a pressing issue.

Tetsuya Asada, Director of Marketing & Communications (Tokyo, Japan)

Deal perspectives

Retaining the right talent can mean the difference between value creation and value erosion during global transformation. Indeed, business leaders must consider their options when managing their human resources. We ask dealmakers: Did the buyer introduce LTIPs or a comprehensive retention program in your recent transformation, and how important was it to utilize high performers to drive the deal?

SELL-SIDE
BRIDGESTONE C.I.S., Russia

A talent retention program was at the center of our recent transformation since the buyer understood the power and potential our employees have in contributing to our brand and company value. Their HR team was actively involved in understanding our employees' motivations and concerns and analyzed our internal policies to formulate their own strategy to retain key talent.

Specifically, they targeted top management and worked their way down the chain of command to the operational level employees that were critical to maintaining the business. They understood that delivering great results requires a great team, so they made it a priority to retain top performers at our company.

BUY-SIDE
MITSUBISHI CORPORATION, Japan

Talent retention is one of our top priorities when completing cross-border transactions. Retaining key talent directly correlates with achieving the objectives we set prior to engaging the target, and these individuals are critical to achieving deal synergies. Through the programs we establish – which include various incentives, such as transaction bonuses – we want to make sure the employees realize how valuable we consider them to be to the success of the business and our broader, long-term goals.

BAKER MCKENZIE INSIGHT

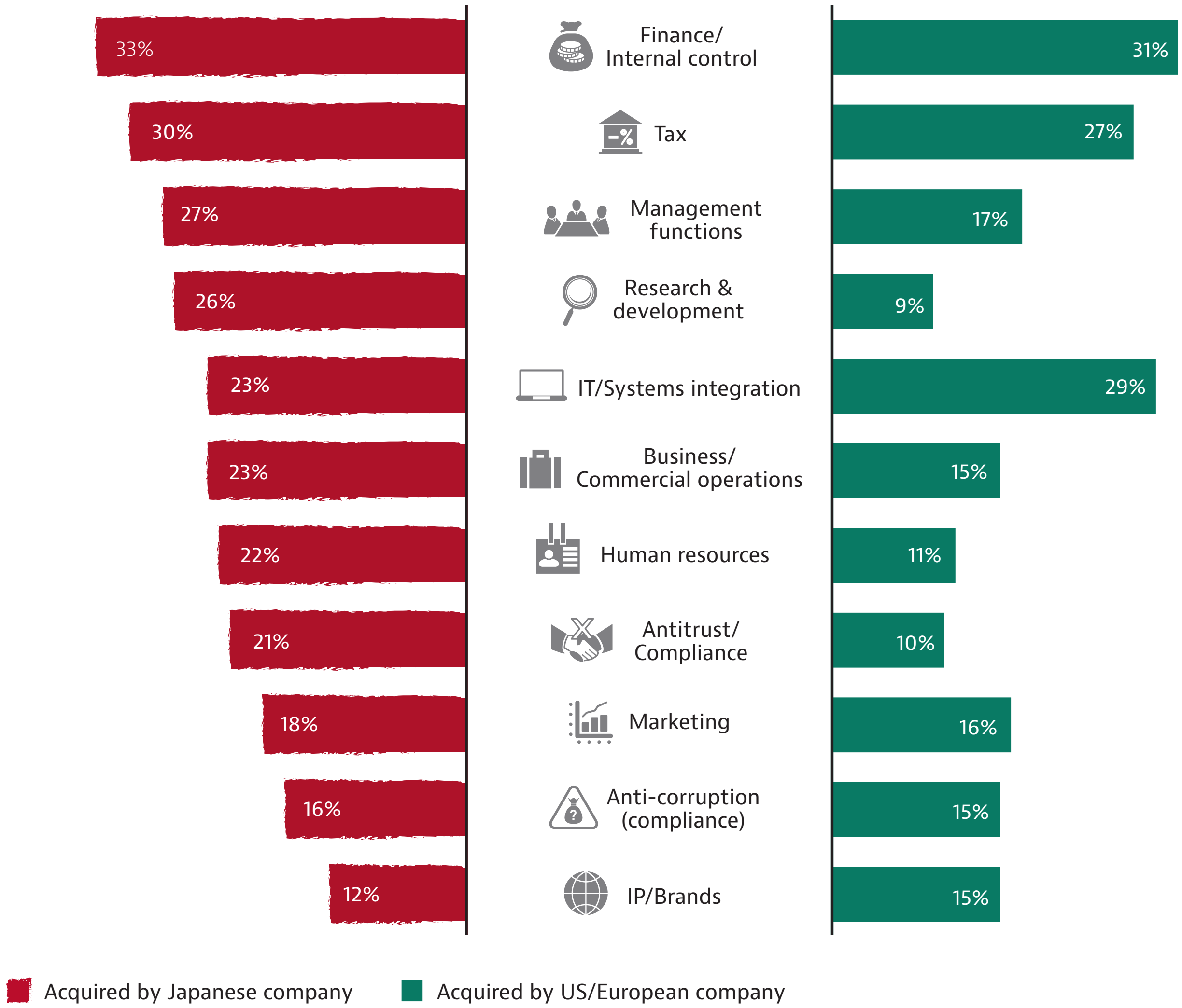
Long Term Incentive Programs (LTIPs) are a relatively new phenomenon in the Japanese market and have yet to be widely used by Japanese companies, which traditionally have a hierarchical and guaranteed salary curve. This means that salary levels incrementally increase over the years after employees join companies as new graduates. This, however, will likely change as the typical domestic concept of lifetime employment in Japan begins to give way to greater employment mobility. This, in turn, is paving the way to providing appealing LTIPs, particularly for executive or senior level employees. As this trend develops in cross-border acquisition programs, the key for Japanese companies seeking to harness the soft power of human capital at their target companies will be to consider what incentivizes talent in different cultures and markets, and create tailored packages that are attractive to those particular individuals.

- Tomohisa Muranushi, Partner and Head of Employment (Tokyo, Japan)

Dedicating time and resources: Integration priorities

When the right talent is put in the right places, meeting performance targets and integrating functional areas can sometimes be achieved with fewer setbacks. Indeed, respondents mentioned that retaining employees responsible for managing some of the more technical aspects of the business – such as IT, operations, and finance – can substantially improve the odds of a smooth transition to new systems and processes. Yet, even when human resources are managed effectively, combining various departments presents certain unavoidable obstacles during the integration phase.

Figure 9: Which areas were most challenging to implement change or created the most setbacks?



Top integration challenges: Finance and tax

Managing financial resources presented some of the greatest challenges for respondents during their recent transformations, with many pinpointing finance and tax issues as the epicenter of these difficulties (Figure 9). Many of these challenges stemmed from differences in certain practices and principles, highlighted by approaches to finance, accounting, and corporate governance that many respondents were unaccustomed to. This was particularly apparent in emerging markets, where governance regimes and industry standards and enforcement may not be as strict as in Western countries. To mitigate these differences and ensure that standard practices were being met, many respondents noted that buyers, and in some cases sellers, enlisted the support of external advisors familiar with the business and legal environment of the local target market.

Integrating management functions was also seen as one of the top challenges among respondents, although more so for Japanese companies than their counterparts in the US and Europe. In many cases, this was due to the meticulous involvement of Japanese managers in planning and execution compared to the largely laissez-faire approach Western managers take.

IT/Systems integration was seen as a lesser challenge, although a no less important one. We discuss this functional area in our next section on page 34.

Key differences: R&D and human resources

Sentiment between respondent groups differed widely in several areas during integration. These were most notable in R&D, human resources, and antitrust/compliance. As respondent feedback suggests, the high percentages among Japan-acquired respondents could be related to cultural differences and approaches to business.

Especially in R&D, corporate culture can be a critical driver for research-driven results. Equally, it is a sensitive area where even changes of the best intentions may produce less than desirable results depending on the target organization. For example, the innovative, proactive young upstart might find the traditional, risk-averse nature of an acquiring company difficult to conform to, let alone one where collaboration

BAKER MCKENZIE INSIGHT

As indicated by our survey findings this year, tax issues were the second greatest difficulty for Japanese companies and the third greatest for US/European companies. We think, however, that there are differing perspectives from Japanese and US/European corporations around this. US/European companies may feel that it is challenging to create synergies by integrating the acquired business into the existing tax structure post-close, while Japanese companies may feel it is challenging simply because they need to deal with the complicated international tax rules without having strong in-house international tax capabilities.

In addition, tax considerations in Japan are an aspect which is neither discussed publicly, nor aggressively. Corporations generally do not openly want to disclose the fact that they may be looking at tax advantages. However, if considered quietly and effectively, corporations have the advantage of enjoying significant savings, to the point that there is a significant impact on the financial outcome of business operations.

- Ryutaro Oka, Licensed Tax Attorney (Zeirishi) in the Tax/Transfer Pricing Group (Tokyo, Japan)

Tax

Harnessing tax attributes remains one of the more elusive objectives for dealmakers, with respondents in our survey indicating that handling tax issues posed one of the greater challenges in their recent integrations. This was the second greatest difficulty for Japanese companies and the third greatest for US/European companies. Despite this, tax issues rarely receive the time and attention they deserve, with most respondents citing that more resources should have been allocated to this area (Figure 10).

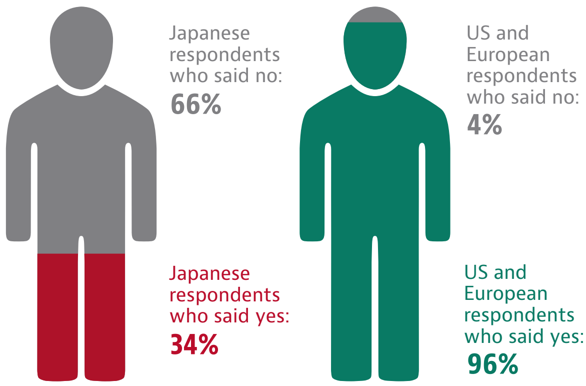
These results correlate with respondent feedback from Japanese corporates from the buy-side who in our survey last year noted that they inconsistently or simply did not task these responsibilities to a dedicated tax director (Figure 11). Conversely, research revealed that US/European companies were indeed assigning such authority over taxes to a dedicated officer to decrease the likelihood that tax advantages were overlooked.

Companies adequately addressing these tax matters are more likely to yield the associated benefits and this is particularly key given the current dynamic global tax environment. This environment is giving rise to ever increasing challenges for multi-national organizations.

Figure 10:
Tax considerations as part of recent business transformations

	Acquired by corporate based in:	
Given most time/resources	Japan	19%
	US/Europe	21%
Deserved more time/resources	Japan	27%
	US/Europe	21%
Most challenging	Japan	30%
	US/Europe	27%

Figure 11:
Involvement of dedicated tax director in recent business transformations among buyer groups



Question taken from Baker McKenzie's The Global Challenge: Applying business transformations in corporate Japan, asked specifically as "Do you have a dedicated tax director role in your company who is solely responsible for handling tax issues?"

on product and solutions development can progress fluidly.

Indeed, cultural barriers and miscommunication can prove costly in terms of financial and human resources. In extreme cases one of the unanticipated consequences of merging dissimilar cultures without appropriate guidance can be a loss of talent and intellectual property, a point where Japanese transformation may be leaking value by mismanaging R&D and human resources.

Compliance and the value of external advisors

The wide gap in respondent feedback toward the perceived challenges in complying with antitrust rules and regulations resulted largely from the experience or inexperience of the buying firm. US and European companies with extensive cross-border track records generally either know in advance which regulatory issues will present the greatest obstacles or know which advisory groups to consult to avoid breaches and setbacks – and in many cases it's both.

While Japanese firms are also taking these steps, by and large their lack of experience or acknowledgement to the value external advisors may offer means many are facing setbacks that would otherwise have been avoidable. Indeed, utilizing external advisors specializing in financial, legal, and other key focus areas can have a profound impact on the global transformation. Aside from providing ground-level intelligence on the target market or industry, they can also act as third-party mediators between buyer and seller. In this way, they can assist parties to navigate the integration process and address the oft-arising frustrations of cross-border, cross-cultural deal making.

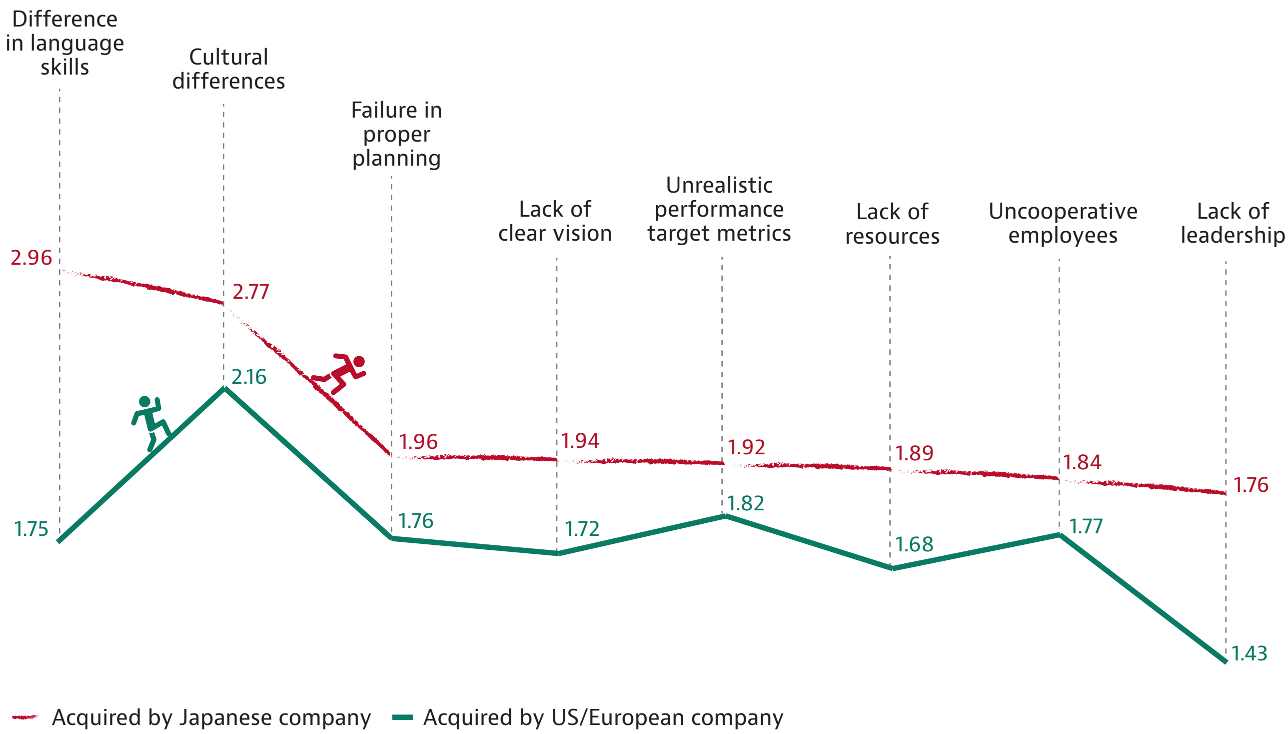
Integration obstacles: The usual suspects

Somewhat unsurprisingly, language and culture were among the top obstacles to arise during integrations at both US/European- and Japanese-acquired companies (Figure 12). However, failure in planning and lack of a clear vision also stood out as a marker that things could have been run better.

As a highlight of this collective feedback, respondents acquired by Japanese companies gave higher ratings for the difficulties listed in all instances, specifically with language barriers and cultural clashes. These issues, in one way or another, contributed to lost time or value for the Japanese buyer, with the senior vice president at a US-based agriculture company saying that language issues prevented effective communication regarding the Japanese buyer's expansion strategy. This in turn resulted in delays to product rollout in the US market. Legal problems also arose when directives from the headquarter office were not communicated properly.

Failure to address language issues can have a cascading effect across the deal, resulting in unnecessary delays that could see hard won value washed away. However, from our experience and market insights, Japanese corporates may be taking a more cautious pace during integration when compared to companies in the US and Europe. By some estimates, this margin is considerable, with the global average in integration time a comfortable three years against Japan's nine year integration timetable.

Figure 12: What were the major obstacles you encountered during the post-merger integration process?



Totals are mean average of rankings on a 1 to 5 point scale.

Deal perspectives

Meeting the challenges of integration often requires a dedicated team to manage the process and people involved. We ask dealmakers: Generally, who are the best people – both internal staff and external advisors – to group into a dedicated integration team?

BAKER MCKENZIE INSIGHT

The best integration teams should be built under a leader who sets forth a clear vision, and around people who have the most relevant experience. In many ways, practice *does* make perfect, and global transformation strategies are no different. Potential issues come from all areas which cannot be addressed in advance, and take longer for inexperienced people to resolve. Seasoned integration teams know that outsourcing or consulting with an external advisor is often the most cost-effective and prudent solution for complicated and sensitive issues in cross-border transactions. Integration teams that are able to gather necessary knowledge, both internally and externally, can avoid initial mismanagement which could lead to serious problems or financial burden.

- Akifusa Takada, Deputy Head and Partner of Corporate/Mergers & Acquisitions Group (Tokyo, Japan)

SELL-SIDE
METABO AG, Germany

The most valuable personnel in our recent deal were the top line managers of both organizations. Decision-makers at both companies were well versed in cross-border M&A and understood the importance of quickly establishing a clear, collaborative joint vision and understanding among managers and staff throughout both organizations.

However, even these parties recognized the importance of external advisors to the process. Legal issues are ever changing and we wanted to ensure there were not breaches of antitrust regimes or other regulatory matters that would disrupt the deal, integration, or anticipated growth for both organizations given the complexities of the cross-border transaction.

It was this combination of managers and advisors that yielded the results we wanted: a successful deal followed by smooth integration that did not disrupt business as usual at either of our companies.

BUY-SIDE
CHEQUERS CAPITAL, France

We spent a considerable amount of time examining the company and their strategy pre-deal to ensure that it would align with what we wanted to accomplish in that market. It also allowed us to see specifically where we could offer the most value and make improvements to current operations.

While we have completed several cross-border transactions in the past, when investing in a foreign market, it's easy to overlook the sometimes obvious challenges that can arise – different regulations, corporate culture, and overall business environment – so we wanted to involve consultants from the beginning of the transaction to make sure that that didn't happen. Our advisors helped us tremendously during the due diligence process, checking the financial and operational status at the target and helping with cultural and people issues when necessary. In a domestic transaction, much of this work is done internally, but in a cross-border transaction we always need the advice of external consultants, specifically those with extensive cross-border experience and international insight to anticipate unforeseen challenges that could arise as the transaction is completed, as well as in the future for the newly minted company.

CURRENT DEVELOPMENTS: JAPAN-BASED HITACHI KOKI BUYS METABO AG (2015)

In November 2015, Hitachi Koki announced it would acquire 100% ownership of Metabo AG. Given its impressive growth and market achievements since being acquired by Chequers Capital in 2012, Hitachi Koki CEO Osami Maehara said "Our explicit goal is to grow significantly in Europe and acquiring Metabo brings us a big step closer to achieving this. We have the greatest respect for the outstanding results the Metabo team achieved in recent years."

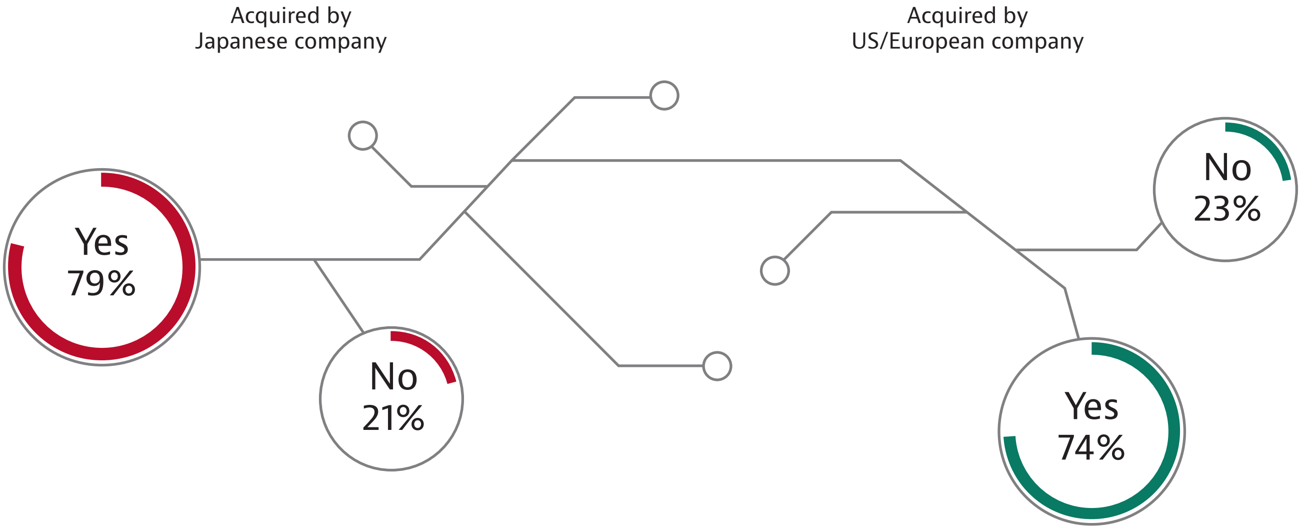
On the deal's announcement, Maehara also made assurances that Hitachi Koki would retain the entire workforce and management team at Metabo to ensure continuity of business, as well as to maintain the brand's image for excellence in the power tools market.

In pursuing the transaction, Hitachi Koki consulted legal advisors with international scope and experience (Baker McKenzie) to assist with the transaction into the European market. While no newcomers to the European M&A scene, the legal advisors provided support in answering relevant legal questions in connection with the acquisition in Germany and further jurisdictions as part of Hitachi Koki's broader market expansion strategy. Collaboration between Hitachi Koki and the legal advisor's global team brought the transaction to a speedy and successful close.

Getting I.T. right

IT is widely considered the engine for efficiency and the "backbone" of the newly integrated business, which is a point made by several respondents in our survey. Overwhelmingly, respondents agreed that prioritizing IT and systems integration had a positive impact on other aspects of the integration (Figure 13). Integrating IT systems removed information blocks and allowed communication and data to flow more easily between departments, teams, and

Figure 13: Do you feel prioritizing IT can have a positive impact on other aspects of the integration?*



3% of US/European acquired respondents were uncertain.

On a less technical level, operating on the same information platform also helped cultivate a sense of unity between buyer and target, with the senior vice president of a US-based industrials company saying that "IT systems integration motivated various departments at our company and the buyer's to work together and coordinate on tasks crucial to the transformation."

Timing IT integration played an important part in yielding positive outcomes when combining systems. Close to half of respondents said their IT integration began prior to deal close, providing more than enough time for IT departments to merge systems or create new ones from legacy infrastructure (Figure 14). Another third said theirs occurred post-close, noting that this was mostly deliberate and that a substantial rollout plan was launched after careful consideration.

"The buyer initiated the IT integration plan during the due diligence phase as they had been able to highlight areas of improvement in the IT landscape and had shared the changes that they wished to implement for mutual growth and better outcomes," says the CFO at an Australia-based consumer goods company.

Surprisingly, almost a quarter of

respondents from both groups said there was no integration plan at all. To be sure, this did not mean that IT integration was not a priority, but rather that in some cases legacy IT systems and existing platforms were deemed adequate and left unchanged. In others, IT systems were left intact out of concern that integrating or altering such systems would cause problems or delays for business operations. However, failing to follow through with an IT integration plan can leave substantial amounts of value untapped, creating missed opportunities to boost the transformation.

Beware of the digital deficit

Low levels of IT integration or a general lack of such efforts are often the result of a "digital deficit" in knowledge among management teams. While this can take place at various levels of the organization, often it is the C-suite and upper management posing a drag to such investment.

While a problem that can plague management around the world, in Japan it is particularly prevalent. In a recent Nikkei analysis of IT and corporate leaders in Japan, research found that an astonishing number of managers today could be classified as "digitally illiterate".[4] These are CEOs and company presidents who seem stuck in a time warp, preferring the age of analogue over the IT and tech revolution.

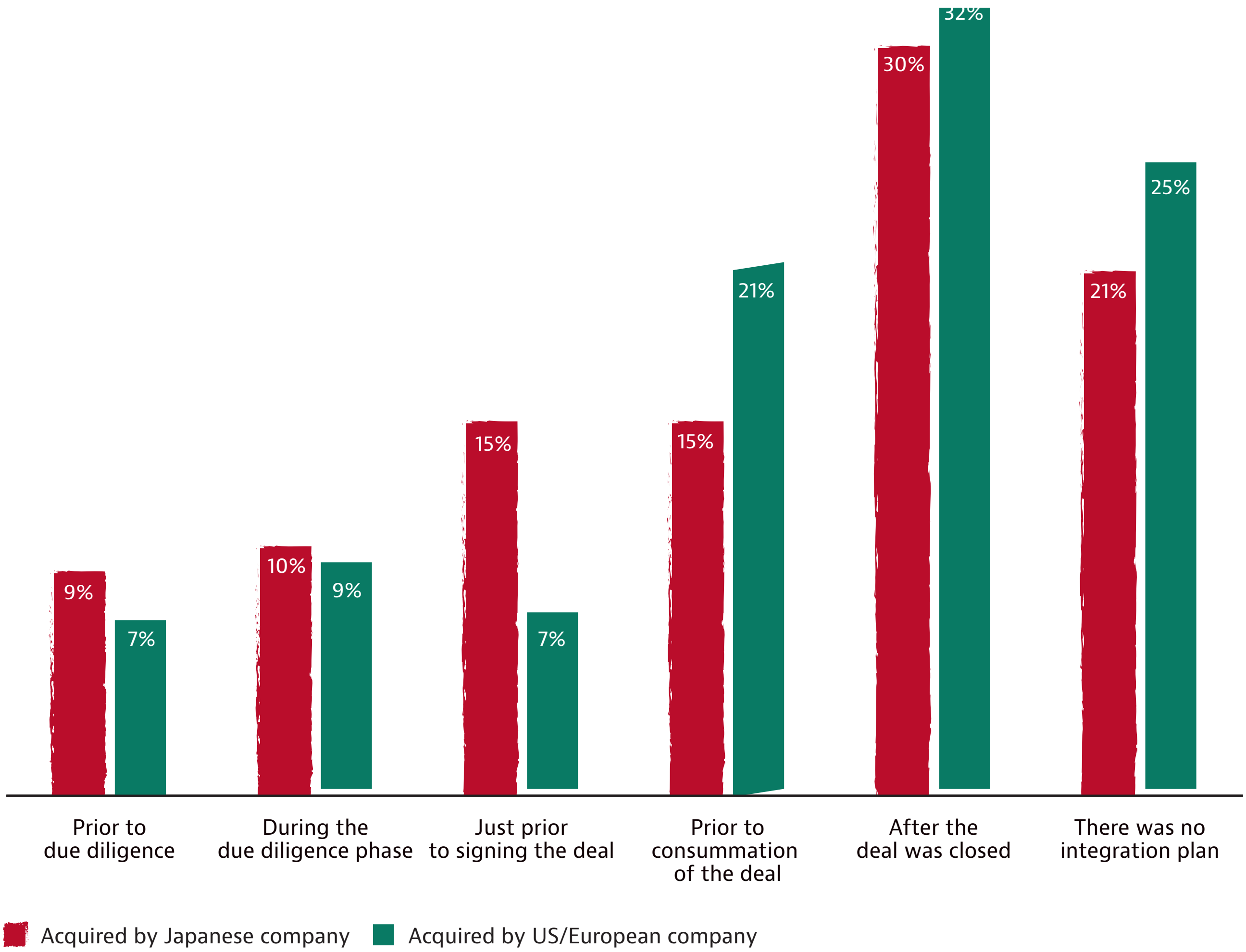
More than their ignorance of technology, these individuals pose a huge impediment to growth given their opposition to utilizing such advances. When IT systems are implemented, often they are underutilized, forcing employees to adopt outdated work processes.

At other times, management teams have been guilty of over-investing in IT. In these cases, software and systems are implemented that the company simply does not need, and the end result can be anything from confusion among departments to accidental loss of data. Indeed, utilizing IT or implementing an effective integration for technical systems requires that the right people be in the right positions with the right knowledge and skill sets.

> "IT systems integration motivated various departments at our company and the buyer's to work together and coordinate on tasks crucial to the transformation."

4 "'Digitally dense' presidents spell doom for companies – knowledge posturing poses worst-case scenario," Nikkei Business, November 9, 2015.

Figure 14: When did the buyer initiate IT integration?



BAKER MCKENZIE INSIGHT

Japanese companies' IT systems have often evolved in a parallel manner to those of their Western multinational counterparts. This means that the integration of IT systems of a firm being acquired may not be possible at the outset – its legacy systems will often need to be kept in operation well after an acquisition is completed. This may not necessarily be a bad thing, however. It does offer the Japanese companies the chance to gain knowledge of overseas based IT systems, and may lead to similar technologies being integrated into the organization as a whole.

- Kensaku Takase, Partner and Head of IP/ITC (Tokyo, Japan)

Deal perspectives

Having corporate leaders who are up to date on the latest trends in technology can be a huge value-add to the global transformation process. Conversely, decision-makers who are behind on the times can prove costly. We ask dealmakers: How well versed in IT issues was leadership and the integration team at the acquiring firm? If they lacked knowledge on the topic, who did they consult to fill this knowledge gap?

SELL-SIDE
US-based tech company*

[The buyer] involved IT consultants from the start of the integration to help expedite the process. It wasn't so much that they lacked the skills needed to integrate our systems with theirs, but they realized that such a task would have required more resources than they had available – resources that were being allocated to other aspects of the transformation.

The external advisors helped fill in any knowledge gaps to the process and assisted us in perfecting the integration plan from our end. With their insight, we were able to add substantial value to our IT systems, upgrading the existing infrastructure and embracing best in class systems and techniques.

BUY-SIDE
Sweden-based tech company*

Our integration team is well versed in IT issues, but to understand the IT architecture and infrastructures at [the company we acquired], we felt it was necessary to consult outside specialists in this field, especially given time pressures.

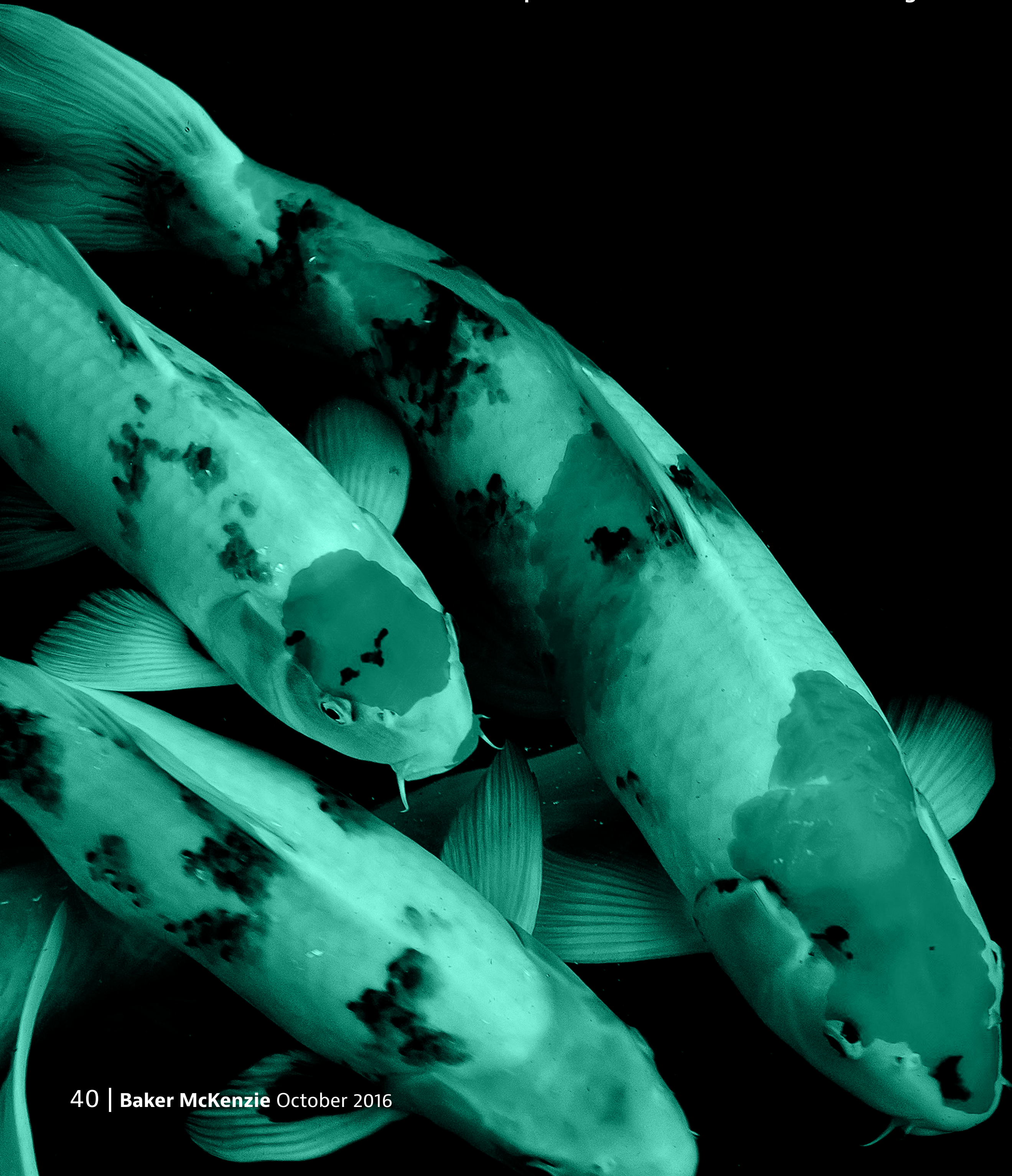
IT integration is an already challenging task, and doing so under time constraints and deadlines when you're already dealing with other tasks that require attention increases the chances that a mistake will be made. And given the complexity of the information systems and processes we're dealing with, even a small mistake can have a big impact on the rest of the integration, and that just wasn't a risk we were willing to take.

In choosing our IT advisory consultants, we looked for a team that had a track record of excellence. We also wanted IT advisors with global perspective to meet our needs as a company that was expanding internationally to grow the business.

*Company requested to remain anonymous during interview process.

Lessons learned for better global transformation

Every integration has room for improvement and many deal makers start planning the integration phase of their next global transformation before current combinations have wrapped up. Among respondents in our survey, many highlighted culture, talent, and communication as areas where improvements could be made in future integrations.



Somewhat unsurprisingly, the top priority involving Japanese companies would be actively addressing cultural and language issues (Figure 15). Time and again, these two factors arise as the points where companies from Japan stumble the most, yet Japanese corporations continuously fall short in adequately bridging the divide between themselves and their targets. US and European companies seem to have a better handle on these differences, with respondents instead noting that greater attention would need to focus on improving communication with the HQ offices of the acquiring firm to make for better integration.

Where both respondent groups found agreement was in the need to select a dedicated integration team. Not having such a taskforce in place meant time and resources were drained from other teams. In other instances, the integration was prioritized behind the main duties of these teams. While their transformations were largely successful, in retrospect completing the integration in this manner was a risk respondents would not be willing to take.

What was surprising from these findings was the confidence most respondents had toward timing the integration or follow-up procedures. Smaller percentages of respondents acquired by Japanese companies said starting sooner could yield better results, with even fewer citing the need to expedite integration or implement a second wave. Conversely, for respondents acquired by US/European companies,

Figure 15: What would you do differently with future integrations?

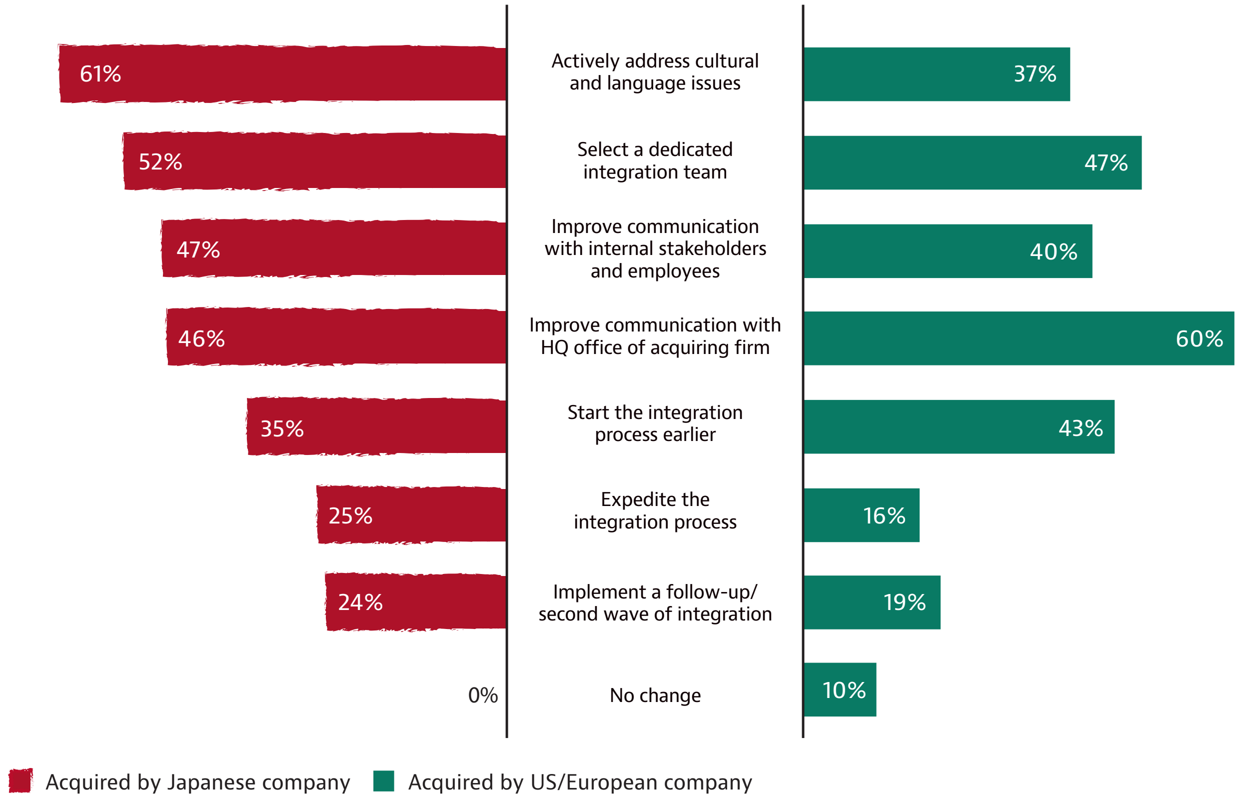
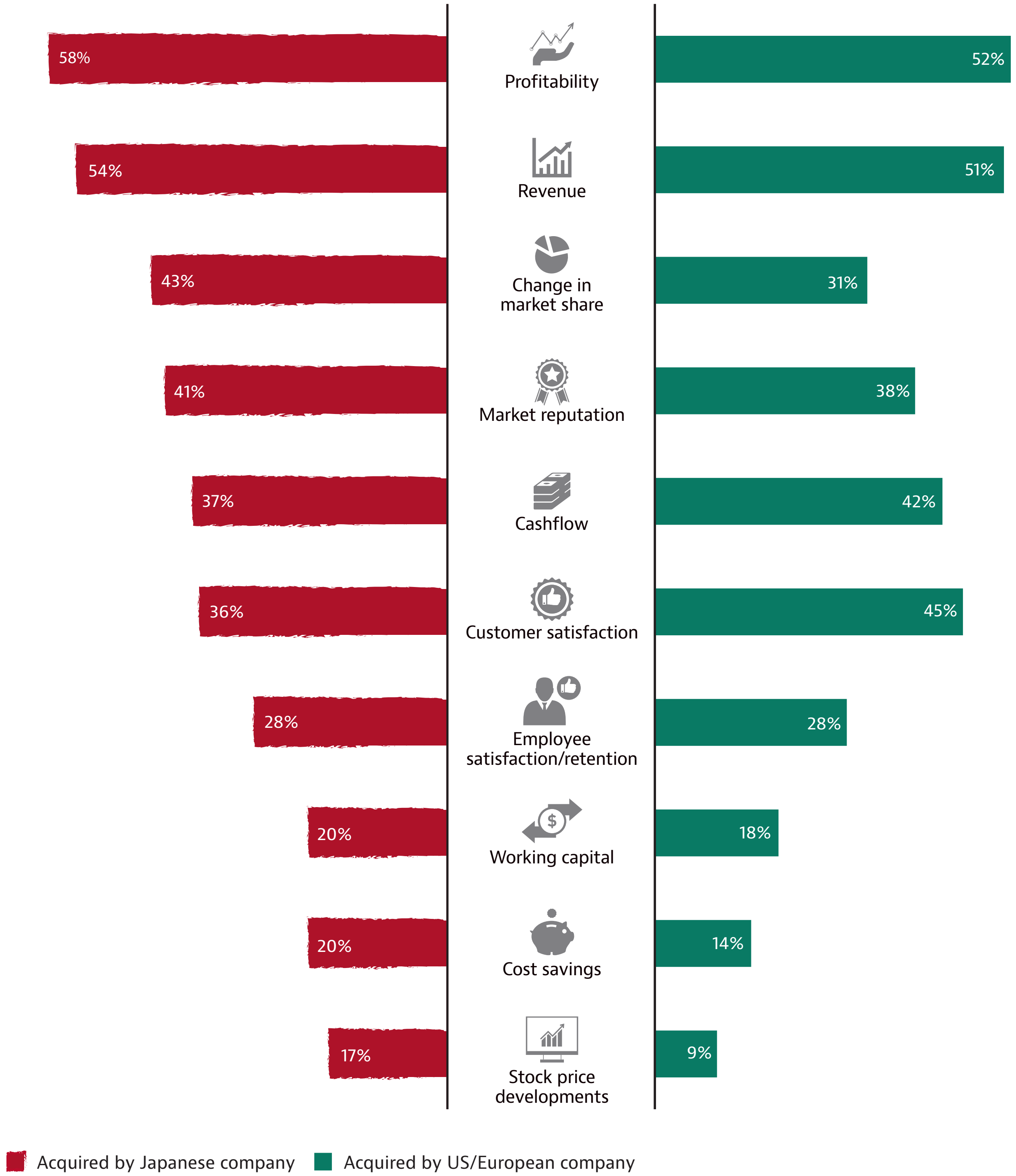


Figure 16: Which of the following financial and non-financial metrics did you use to gauge the success or failure of your most recent global transformation?



launching the integration phase sooner was among the top areas where a different approach would be taken in the future.

Gauging a successful global transformation

Financial indicators – profitability and revenue – were the top metrics used to gauge the success or failure of recent global transformations (Figure 16). Respondents said these were the easiest to analyze and track, and were often the most relevant to shareholders in determining if value has been created or destroyed.

An interesting observation is the low ranking that employee satisfaction/retention (28% for both respondent groups) as a viable metric received, especially given the emphasis placed on retaining key employees and recognition of their contribution to a firm's intangible value. In support of this metric, the CEO of an Israeli pharmaceutical company said, "Employee satisfaction and retention should be given the highest importance and this is the basic factor that can help both parties capitalize on the synergies and give the business a strong core to operate and excel in the market. On average, I think this should be measured every year and employee concerns should be addressed immediately to ensure continuity of the workforce."

Equally, the general manager of accounting and finance at a Russian manufacturing company said, "Employee satisfaction or retention should be given priority in order to gauge the transformation's success as a satisfied workforce contributes well and performs efficiently to deliver the most optimum and positive returns expected by the business and the management team."

Another surprise in these results was the difference between respondent groups toward customer satisfaction as a measure of a transformation's success. For respondents acquired by a US/European company, this was one of the top ranked metrics, while for Japanese companies it fell below almost all other internal and financial determinants.

Conclusion

While success rates among respondents in our survey are encouraging for corporate Japan, improvements are still needed for these companies to reach a higher plain of competitiveness. This will mean incorporating best practices into their existing business processes. More importantly, it will mean learning from past mistakes and learning quickly, all while addressing the numerous factors that continue to inhibit their global ambitions.

Global transformation can provide the means to this change, the question now is knowing which areas to focus on first. The insights from respondents in our survey, while far from exhaustive, provide a good place to start focusing these efforts. The real challenge for Japanese corporates will be revisiting their current cross-border doctrines and making the necessary changes to engender change on a transformational and international scale.

Whatever the course, these areas and insights deserve careful consideration:

Manage culture with care

While not every part of the target's existing culture will be carried over or incorporated into the newly merged enterprise, learning which elements are strictly "hands off" will help integrate workforces. This is crucial when work cultures are as divergent as those between Japanese corporates and companies in Western countries. More importantly, this step is necessary to retain satisfaction and support from employees at the target, a factor that will inevitably contribute to talent retention or loss. Achieving this buy-in requires effective communication and outreach, a task best led by buy-side leadership in a move to instill confidence in the process.

Talent retention

A targeted employee retention program aimed at keeping top talent in the current workforce has the immediate effect of preserving value within the target organization. Completed early, this initial group of high performers can then participate in the retention process as they identify other key talent whose initial value contribution to the organization may have been overlooked. When this step is effective, it can impact the ease of integration as employees with key skills contribute to merging businesses and departments. As a further value add, top talent provides ground-level insight to the market and can contribute to the creation of a globally minded management team.

Implementing a timely and efficient integration

With the right people in the right jobs, the difficulties inherent in integrating the various functional areas can often be mitigated. This is crucial not only in preserving the value of these assets – most relevant in the more technical areas such as IT, operations, tax and finance – but also in generating synergies that are part of the initial transformation blueprint. While internal staff deeply familiar with business areas are best suited for this task, external advisors should also be considered to support current progress and untangle complexities to expedite the process.

Integrating IT systems

Ignorance is no longer an excuse for managers to neglect IT, and indeed treating IT systems as an afterthought may spell doom for an organization operating in the current market. Even when IT integration is deemed unnecessary if current systems prove adequate, management teams must keep abreast of advances in tech that can add value to their companies. At the same time, they must avoiding over-investment in technologies that do not. As with the other functional areas, having the right teams in place or recruiting outside counsel can only increase the chances of overcoming any digital deficit currently afflicting management teams.

BAKER MCKENZIE INSIGHT

What defines "success" in global transformation aiming to create a truly global corporation? And how much investment and time does it take to achieve this? Regardless of whether a company is headquartered in Japan, the US, Europe or anywhere else in the world, global transformation should not be perceived as the end goal, but rather an evolving process involving large-scale reorganizations or cross-border acquisitions that occur in the confines of the legal arena. Some corporations are faster and better at executing and driving these processes and acquisitions, while others are just starting to venture out into the global economy. However, we are certain that the key elements affecting the pace and outcome of these transformations include driving clear-cut strategic plans, selecting the right approaches, making efforts to overcome cultural and other barriers, and recruiting and retaining the people who drive all these aspects. No matter who these people are, internal or external, everyone should understand that there is no ONE method that creates change on this level.

When studying Japanese corporations in this research, the stereotype that Japanese organizations are not as well versed in cross-border acquisitions compared to their Western counterparts was proven hollow. Japanese companies have been seeking to devise their own methods, many of which are conducive to Japanese organizational culture, and it seems these efforts have enjoyed a certain level of success based on favorable feedback from employees and management at their target firms. In that same vein, our research reveals that Japanese corporations are still less advantageous compared to Western corporations in select areas. These include the flexibility to handle changes during the transformation process, the strength of an employer's brand, talent retention, diversity and integration, R&D integration, and tax management. The slowness in transformation at the Japanese headquarters in and of itself may also be a deep issue.

To overcome these issues and grow to be a company that can thrive in an increasingly competitive global market, Japanese corporations should develop their own local methods while continuing to study their Western counterparts, and/or aim to devise a completely new and unexplored strategy to prepare for the next generation. Lawyers from Baker McKenzie will draw upon our collective knowledge and deep understanding of the laws and our experience around the world, and make our best efforts to support the corporations undergoing transformational changes, as well give support to the talent driving these changes in these corporations.

- Hiroshi Kondo, Head and Partner of the Corporate/Mergers & Acquisitions Group (Tokyo, Japan)

Methodology

In Q1 2016, Mergermarket completed a survey of 200 respondents from the sell-side/targets of transactions involving corporations from Japan, the United States, and Europe (companies that were involved in our study last year during which we focused on the buy-side of international M&A).

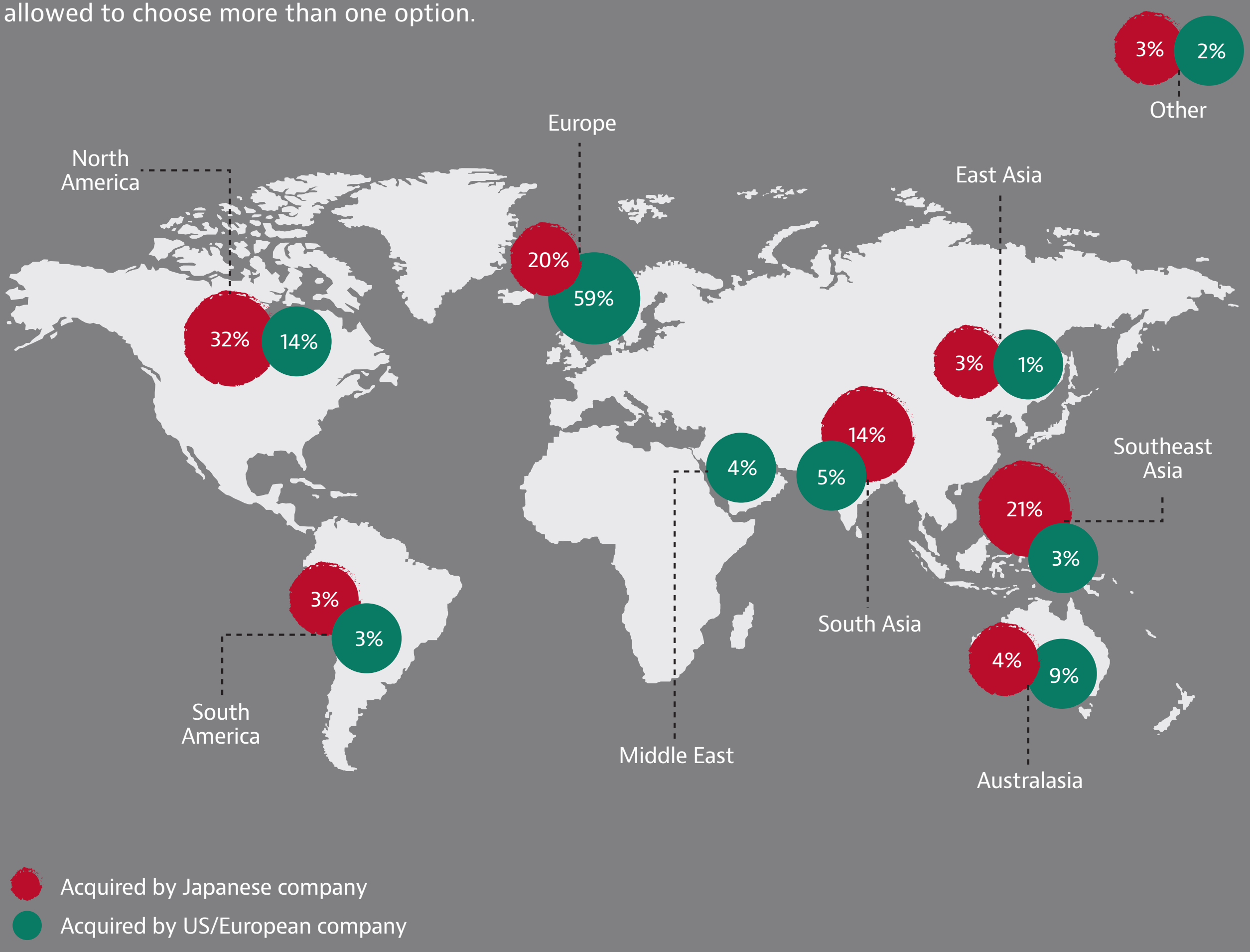
Among respondents, half were acquired by a Japanese corporation, with a quarter acquired by companies based in the United States and Europe each.

Respondents acquired by a Japanese corporation were based in the following regions: North America (32%), Southeast Asia (21%), Europe (20%), South Asia (14%), Australasia (4%), South America (3%), East Asia (3%), with the remaining percentages based in other geographies. For respondents acquired by US- or Europe-based companies, the breakdown was as follows: Europe (59%), North America (14%), Australasia (9%), South Asia (5%), Middle East (4%), Southeast Asia (3%), South America (3%), East Asia (1%), with the remaining percentages based in other geographies.

The survey included a combination of qualitative and quantitative questions. Follow-up interviews were conducted with select respondents from both target organizations and their respective buyers. Interviews with Japanese respondents from the buy-side were conducted in Japanese. Results were analyzed and collated by Mergermarket. All responses are anonymized and in aggregate. When respondent names or organizations are used, this has been done with the express permission of the respondents.

This research was complemented by a series of interviews with Baker McKenzie practitioners in a number of jurisdictions.

Where figure totals sum to more than 100%, respondents were allowed to choose more than one option.



About Mergermarket

Mergermarket is an unparalleled, independent mergers and acquisitions (M&A) proprietary intelligence tool. Unlike any other service of its kind, Mergermarket provides a complete overview of the M&A market by offering both a forward-looking intelligence database and a historical deals database, achieving real revenues for Mergermarket clients.

Remark, the events and publications arm of the Mergermarket Group, offers a range of publishing, research and events services that enable clients to enhance their own profile, and to develop new business opportunities with their target audience.

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Baker McKenzie.

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Notes

Baker McKenzie helps clients overcome the challenges of competing in the global economy.

We solve complex legal problems across borders and practice areas. Our unique culture, developed over 65 years, enables our 13,000 people to understand local markets and navigate multiple jurisdictions, working together as trusted colleagues and friends to instill confidence in our clients.

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