Unlocking Japan’s potential
How culture can drive success in post-merger integration

¥209tn
Nikkei 225
Japanese companies’ current cash reserves (US$1.9 trillion)

US$600bn
M&A spent by Japan in the past decade

57%
of business leaders surveyed indicated incompatible cultures as a key factor in M&A failures
Contents

Executive summary 4
1. Introduction 7
2. Defining culture and its importance 13
3. Challenges confronting our clients 21
4. Industry point of view 27
5. Recommendations 33
6. Hypothetical case studies 39
7. Conclusion 43
Contacts 46

All figures shown in this report are denominated in US dollars (unless otherwise stated).
In recent years, corporate Japan has been gradually accounting for a greater share of global M&A action and this trend is only expected to continue.

As the number of Japanese companies acquiring subsidiaries abroad grows, at PwC we have worked hard at examining ways to extract greater value from these increasingly common transactions.

We believe the need to fully realise the potential synergies of a well-chosen acquisition will put pressure on the current 'set-and-forget' model of acquisition, where a Japanese company largely leaves the foreign acquisition to its own devices.

The majority of Japanese companies are spending significant amounts of time and effort on commercial due diligence when it comes to acquisitions, but far too little time on doing cultural due diligence and putting in place plans to integrate the business post acquisition. The upshot is M&A is proving far more difficult than it needs to be for many companies.

Our research, and the direct experience of those companies we work with closely, has shown this approach produces fertile ground for communication problems between head office in Japan and the acquired company, lower levels of employees engagement and ultimately a failure to extract full value from the acquisition.

Cultural factors can also have a significant negative impact on business performance by as much as 57 per cent. This is supported by studies that indicate incompatible cultures being a key factor in M&A failures.¹

Interviews with CEOs of leading Japanese multinational companies have helped us pinpoint some of the biggest cultural challenges relating to either acquiring or operating subsidiaries abroad.

These challenges include problems in:

- engaging overseas teams
- communicating across borders
- conflict resolution
- retaining talent
- adequately preparing executives to manage overseas subsidiaries

As we point out in this report, Japan’s unique workplace culture creates even greater challenges to achieve integration after an acquisition.

But it can be done and has been done successfully by a range of companies including Takeda, Hitachi, Mitsui & Co, Mizuho and scores of others.

Models to achieve cultural integration differ, but there are a range of measures that apply irrespective of the exact model chosen to achieve integration after the acquisition of a subsidiary in North America, Europe, Oceania or elsewhere in Asia.

This report contains five clear recommendations from PwC to establish the foundations for successful integration in M&A.

Underpinning all of these recommendations is the need to understand and appreciate the immense differences in cultural traits and approaches to business that exist. This will enable greater understanding by all parties and a mutually beneficial approach to working to be established.

1. Improve strategy communication to subsidiaries by involving subsidiaries in strategy formulation, where appropriate, and running cross-cultural strategy sessions.

2. Develop talent management and global mobility strategies and programs to ensure that talent is appropriately selected, prepared, deployed and managed when moving overseas.

3. Redesign performance management practices, particularly around upskilling managers in capabilities of authentic feedback and performance discussions, supported by HR systems.

4. Build stronger relationship by increasing communication and collaboration across functions, countries, and headquarters to leverage expertise within the organisation and to maximise business opportunities.

5. Be transparent and involve subsidiaries in decision making, and clarify roles (particularly of expatriates) and reporting lines, to minimise confusion within subsidiaries. Consider the appointment of specific roles to help reduce the culture gap such as a ‘Chief Japan Officer’.

The recommendations go further to suggest where culture aligns to the M&A cycle it is clear many of these recommendations are people-centric.
1. Introduction
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It was Bill Clinton who described globalisation as essentially irrepressible.

“It is the economic equivalent of a force of nature, like wind or water.” he told university students in Hanoi in 2000.

“We can harness wind to fill a sail. We can use water to generate energy... but there is no point in denying the existence of wind or water, or trying to make them go away. The same is true for globalisation. We can work to maximise its benefits and minimize its risks, but we cannot ignore it, and it is not going away.”

Fast forward 16 years and attitudes to globalisation in the West are no longer so positive and political developments – such as Brexit, the collapse of the TPP, and the US elections – mirror the views of the broader population.

But in rising Asia, which is predicted to account for 50 per cent of GDP by 2050, views could not be more different.

Sentiments are matched by action. To take one $500bn example, China is unrolling its Belt and Road Initiative, a modern day reimagining of the land and sea trading routes connecting the Middle Kingdom to Europe.

The geopolitical shifts of globalisation are in reality just one facet of the change (most often covered from the perspective of automation’s threat to jobs). PwC also nominates urbanisation, shifts in demographics and power towards the developing world, resource scarcity and climate change as among the megatrends that will shape the coming decades.

Leaders must plan for a dynamic rather than a static future, with many and evolving scenarios.

The shrinking domestic market and ongoing weak economic conditions at home have amplified pressure for companies to expand abroad and set up streams of export income.

And future challenges loom large including deregulation in sections of the domestic economy and increased competition from abroad.

Jon Williams, PwC

“The secret to a bright future seems to me to lie in flexibility and in the ability to reinvent oneself”
If current trends continue, today’s population of about 127 million will halve by the end of the century. The number of Japanese aged 65 or older is thought to already top 25 per cent of the overall population. This greying demographic profile has already been driving Japanese outbound M&A and in recent years has seen that trend gather pace with the continued availability of cheap debt for expansion.

**Corporate Japan (with the exclusion of Financial Services) is still piling up its Cash**

Corporate Japan (with the exclusion of Financial Services) is still piling up its Cash. Recent figures put the size of Nikkei 225 companies’ cash reserves at a near record 209 trillion yen (US$1.9 trillion) which sits alongside an impressive level of retained earnings of almost 400 trillion yen (US$3.6 trillion) (see diagram above).

Thomson Reuters data included in the figure below shows Japan has spent more than $600bn in M&A over the past decade and from 2009 onwards there has been a clear shift away from domestic M&A to cross border M&A.

The figures show a surge in both deal value and deal volume with a string of major plays including Softbank’s $32bn acquisition of ARM Holdings and the earlier $20.1bn acquisition of Sprint Nextel Corp in the US, Tokio Marine and Nichido Fire’s $7.5bn acquisition of the US giant HCC Insurance Holdings and Japan Post’s $6bn takeover of Australia logistics company Toll Holdings.

In the history of Japanese M&A activity, decades of cheap finance has allowed poor performing investments to survive. However, this is changing as investors demand greater capital discipline and dividend returns.

This means the days of bolt-on acquisitions that have little or no expectation of integration into the Japanese parent company are numbered, and the next wave of dominant Japanese acquisitions will become truly global businesses.

The result is an ever growing number of Japanese companies needing to capture the synergies that should flow from M&A activity - even before the wave of offshore M&A activity extends to Japan’s numerous small to medium sized businesses.

Japan’s companies are thus under pressure to develop corporate structures that will allow the devolution of responsibility and power to local subsidiaries to fully tap the energy, diversity, enthusiasm and potential that these acquisitions promise. And at the same time, these structures should bring Japan’s commitment to quality, customer service, product development, production skills and brand development to the company that has been acquired.

Now, more than ever, culture will be critical. Recent OECD research suggests at a time when “effective and appropriate communication within diverse teams is already a component of success in a majority of jobs,” levels of cultural competence are inadequate and efforts to embed

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OECD: Global competency for and inclusive works
the concept of Global Competence in education are only just beginning.

For Japan, global competency and cross cultural skills will be a necessity for any Japanese investor wanting to successfully expand into new international markets.

At a corporate level, the profound difference between business culture in Japan and the Western world, and indeed other parts of Asia, are readily apparent to both sides in a joint venture, merger or collaboration between a Japanese company and foreign counterpart.

Japan, with its highly consensual yet hierarchical approach to decision making, stands as a global outlier in measures of culture as can be seen in the cultural decision making map developed over 13 years by INSEAD professor Erin Meyer and published in an article in the Harvard Business Review.

In an M&A context, these inherent differences often deepen once the transaction is complete as foreigners struggle to grasp Japan’s consensus-based decision making model and the acquired company wonders about the indirect nature of communication from the parent company.

In turn, the Japanese parent can strike difficulty with the less rigid and systematic processes of the acquired company and lack an understanding of the more complex challenges that face management of the subsidiary in motivating employees and dealing with external factors such as labor unions, regulatory issues and other risks.

Some estimates put the failure rate of mergers at between 70 and 90 per cent is not hard to envisage a rate and acquisitions exceeding these parameters for cross cultural mergers. According to a McKinsey survey, 25 per cent of executives said that the absence of “cultural fit” was a key reason why so many mergers fail (Perspectives on Merger Integration 2010). And 50 percent said that “cultural fit” lies at the heart of a value enhancing merger.


As Meyer writes, the concepts of nemawashi (the practice of speaking with each individual stakeholder before a meeting in order to shape the group decision and develop agreement in advance) and ringi (the process of proposals percolating through middle management before reaching the executive leadership) are not features of global corporate culture with the possible exception of Germany.”

Harvard Business Review

1 The Big Idea: The New M&A Playbook
Cultural integration was the second most common direct factor cited for deal failure by companies in Aon Hewitt’s Global Survey in 2011 of 123 companies involved in M&A across the the world and this has increasingly become recognised as a top issue in M&A.

Of course, leading Japanese companies are aware of these issues and are taking significant strides in overcoming the challenges including: improved management and governance practices (such as Takeda Pharmaceuticals, Nomura), genuine diversification of the workforce (such as Softbank, Fast Retailing), improved post merger integration efforts (such as Suntory) and innovative approaches to organisational design (such as Rakuten).

Establishing new and fresh approaches to cultural challenges facing Japanese acquirers of foreign companies is the focus of this publication and we have set out the challenges that need to be overcome in bridging this divide as well as how to go about solving them.

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1 Global survey of 132 senior executives (2002) - 45% from Europe, 24% Asia Pacific, 17% USA, 13% rest of world (HBR & Towers Perrin) Survey of M&A Causes of Failure

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Culture incompatibility is cited as a common cause of merger and acquisition failure

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<thead>
<tr>
<th>Issue</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Incompatible cultures</td>
<td>57%</td>
</tr>
<tr>
<td>Synergies non-existent or over-estimated</td>
<td>54%</td>
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<tr>
<td>Inability to implement change in new organisation</td>
<td>49%</td>
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<tr>
<td>Clash of management styles/egos</td>
<td>42%</td>
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<tr>
<td>Inability to manage target organisation</td>
<td>24%</td>
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2. Defining culture and its importance
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As people, we all feel we know intuitively what culture means and represents. In Japan, traditions, rituals, ways of behaving and social norms go back centuries.

In the business world, there are strong differences in the cultures of individual organisations, but most markedly, between organisations from different countries.

Before we begin to look at those differences, and how to bridge or overcome them, it’s worth delving deeper into the true breadth of what culture represents.

• While culture is intangible, it can be defined as a set of shared assumptions, values and patterns of behaviour that guide individuals’ actions or decisions.

• An organisation’s culture will guide the way business is carried out within the organisation.

• This definition encompasses the iterative way that culture develops organically over time in line with the cumulative traits of the people the company hires, especially its leaders.

PwC’s model to define culture also makes the point that culture has an inertia of its own and it takes strong and persistent effort to effect cultural change.

What is culture?

Culture is....
“...self-sustaining patterns of behaving, feeling, thinking and believing - that determine how we do things around here”
PwC surveys indicate that 84% of organisations believe that culture (organisational) is critical to business success.

An organisation’s culture is also usually heavily influenced by national cultural traits. In Japan’s case, these are the preference for consensus decision making, a more profound sense of obligation binding employees and companies, pride of workmanship and the concept of monozukuri, the notion of the collective being greater than the individual and the belief in or harmony.

Not surprisingly, these result in a unique business culture that has many key differences with what exists in the rest of the world.

While there can be profound differences in culture between companies of the same nation, it is clear that, generally speaking, there are some well established cultural differences between Japanese companies and companies from outside Japan.

The relationship between employees and employers in Japan is globally unique and means Japanese acquirers view many things about acquisitions differently.

The following table illustrates some of these differences.
Japanese companies

- Concept of wa ‘peace and harmony’ overriding consideration
- Consensus-oriented decision making
- Planning or strategies based on past performance and experience
- Indirect communication often preferred; even important points stated indirectly and implicitly
- Bottom-up decision making – ideas circulated through middle management before executive decides
- Slow in reaching decisions
- Age-based seniority
- Tenure-based promotion is common, lateral moves rare among employees
- Responsibility rarely devolved much beyond headquarters or regional headquarters
- Careful in expressing personal views
- Considerable time invested in conflict resolution
- Formality in dress, style, modes of address entrenched
- Hours of work long and inflexible
- Long-term approach to success – profits, returns etc
- Operational excellence rather results

Global companies

- Creative tensions embraced in some circumstances
- Top-down decision making
- More forward-looking planning process
- Direct communication favoured. Key points spelled out clearly
- Strategic decisions can be taken unilaterally at the upper levels
- Fast decision making processes
- Merit-based seniority
- Talent-based promotion, lateral moves common among employees
- Branch offices and subsidiaries have considerable autonomy
- Freedom to express personal views
- Conflict not seen as entirely a bad thing
- Varies between countries, but tends to be more informal communication, dress and style
- Hours of work shorter and more flexibility
- Short-term approach to success – profits returns etc
- Financial results are what counts

Mapping Leadership Culture

Source: Erin Meyer, Harvard Business Review
Americans, for example, are used to thinking of the Japanese as hierarchical while considering themselves egalitarian. Yet the Japanese find Americans confusing to deal with. Although American bosses are outwardly egalitarian—encouraging subordinates to use first names and to speak up in meetings—they seem to the Japanese to be extremely autocratic in the way they make decisions. As a Japanese manager living in the United States and working for Mitsubishi put it: “I couldn’t figure out how to adapt my approach from one day to the next, because the culture was so contradictory and puzzling.”
PwC’s Ryosuke Sasaki, a specialist in talent management and a Japan-based partner, says the price of failing to integrate subsidiaries, in terms of lost synergies, can be considerable.

“The performance of the acquired company doesn’t change, and the expected synergies don’t materialise such as introducing clients to each other, or sharing services and back office functions,” he says.

“In the US, Japanese companies have made so many acquisitions, but yet these subsidiaries are all isolated from each other. There is no synergy at all, so the question is, why did you buy these companies?”

“It is changing though. There is more pressure on companies to capture those synergies.”

The financial and human resources benefits of achieving cultural integration are considerable and come with a string of other benefits.

“If you are to configure an organisation that has a common set of guidelines and vision and incorporates the best of Japanese and non Japanese cultures you are going to be much more successful,” PwC’s Asia Pacific Japanese Practice leader Jason Hayes says.

“They are changing though. There is more pressure on companies to capture those synergies.”

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The financial and human resources benefits of achieving cultural integration are considerable and come with a string of other benefits.

“Where Japanese companies make steps to understand their own Japanese workforce and bring the non Japanese workforce into the tent, we have seen more successful organisations as a consequence. There is greater respect. Kirin, Dentsu and Takeda are examples.”

He also says companies need to value and retain those Japanese employees who can steer newcomers through the cultural maze of the Japanese corporation.

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An industry perspective

“Japanese culture is so tightly woven into the DNA and is so resilient that some of the most effective coaches have been those that have guided the other party through the cultural maze within Japanese firms. They are invaluable and should be celebrated.”

Mizuho’s Debra Hazelton says aside from potentially enticing global talent into the parent organisation, the direct effects of failing to achieve cultural integration are profound.

“If you don’t get the cultural integration right you can’t really optimise any of the metrics for a successful acquisition – revenue synergies, cost synergies, market share increase – and the deal can fall apart. And without good communication you can lose good staff, or what’s worse is when staff become disengaged but keep collecting their pay cheques,” she says. “Also you are not going to have buy-in on the implementation of the strategic plan because people are not going to understand why you are doing certain things and why you are proposing certain initiatives.”

“These decision-making processes are challenging for Japanese acquirers. Sending in the Head Office “brains trust” from Japan can totally negate the skills of those on the ground and that leads to communication challenges and reinforcement of cultural stereotypes that undermine mutual trust and respect.”
3. Challenges confronting our clients
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Culture is the dominant theme running through the challenges that have emerged from PwC’s study of a range of cross-border M&A.

Given the often profound differences between corporate cultures and the importance of culture to an organisation’s bottom line, navigating differences is clearly a vital part of the M&A process.

There are typically three approaches taken by organisations to address cultural difference during the M&A process.

Many Japanese companies in the past have taken the “Hands Off” approach to cultural integration and fail to allocate any of their talent and financial resources to fixing these problems, or trying to achieve greater synergies.

That’s in stark contrast to their peers in Europe, the US or greater parts of Asia who demonstrate a preference for a more balanced approach.

There are clearly cultural challenges associated with each of these approaches. In PwC’s experience these challenges associated with the ‘Hands Off’ approach taken by many Japanese companies results in the greatest loss of potential synergies and business performance.
The Key Challenges

From interviews with senior leaders from Japanese organisations, as well as working with our clients, we have identified four key issues that contribute to cross-border M&A failure.

1. A lack of transparency and engagement

For many leaders in overseas subsidiaries there is dissatisfaction with the communication of strategy, poor understanding of how strategic decisions are made, and little or no opportunity for branches to contribute to shaping local or global strategy.

Historically firms have done little to involve subsidiaries in the development of the parent company’s corporate strategy, reducing the acquired company’s adherence and commitment to it.

2. Cultural misunderstandings

Challenges exist in successfully working with overseas subsidiaries to obtain the promised benefits in acquired companies. This is often a result of cultural misunderstandings leading to poor relationships.

3. Talent Mobility management obstacles

Challenges in leadership styles often impact the ability to develop and retain key talent and high potential candidates.

There is limited preparation of personnel sent from headquarters to manage companies abroad, and mobility programs are rarely well established.

There is often also a lack of globally savvy managers with cultural and linguistic skills, and in many cases the Japanese headquarters’ policy of employee rotation doesn’t allow for optimum deployment of talent.

In cases where an individual manager develops a deep knowledge or affinity for a country, they are sometimes made to return prematurely with limited influence on their subsequent deployments.

4. Inability to manage performance

The inability to manage performance in overseas subsidiaries is exacerbated by differences in leadership styles and communication barriers.
PwC’s research indicates there are two systems challenges that exacerbate these issues.

**The first is insecurity fuelled by lack of communication:**

Often employee needs are insufficiently considered in M&A between Japanese and foreign companies. Employees in the acquired company are often concerned about whether there will be lay-offs and whether their jobs will be safe.

These worries flourish where there is little or no communication on this issue, which can rapidly affect morale and performance in the acquired company.

Unless you have people with strong strategic communications skills that understand employee needs on both sides, it can be difficult.

Acquiring companies must also pay careful heed to remuneration and how to handle the differing scales, expectations and legal requirements on salary given foreign execs, particularly in the US, are almost invariably paid far more than those in Japan.

Effort must also be made to overcome the development of prejudices or negative stereotypes about the foreign subsidiary and the Japanese head office, respectively.

**The second area is structure and proximity:**

PwC’s analysis of cultural issues suggests the traditional “control tower” structure of Japanese expansion where the Tokyo head office serves as control tower is no longer feasible.

For a long time the structure has been the control tower, where Japanese companies have no regional headquarters structure in place. It is a problem where you have domestically skilled and trained executives with no international experience trying to run these businesses out of Japan.

If you think back 20 years ago most Japanese multinational companies had a very large Japanese expat workforce that would manage their businesses around the world. The control tower syndrome was less of a thing back then. In the late 90s, most Japanese companies brought their workforce back into Japan. Now the consequences of that withdrawal are apparent.”

*Jason Hayes, PwC*
Masaaki Tanaka, Senior Global Advisor of PwC Japan, has extensive global business management experience as the former CEO of Union Bank, a large U.S. subsidiary created through acquisitions by Mitsubishi UFJ Financial Group (MUFG) and headquartered in San Francisco, and former CEO for the Americas of the Bank of Tokyo-Mitsubishi UFJ (BTMU) based in New York, and former Deputy President of MUFG at the Tokyo headquarters.

Tanaka says, “It is critical to provide local leaders of acquired companies or foreign operations opportunities to join the decision-making process, express their points of view, and be a part of the final corporate decision.”

During his time as CEO for the Americas of BTMU, he created a management committee that was comprised of six local leaders and three expatriates, and he empowered the committee to make important decisions. “This approach ended up attracting more talent from the market and nurtured the bridging of cultural differences,” he says.

“Established major Japanese corporations tend to have a culture to stay away from the leaders of the acquired company or foreign local executives. “There are only a small number of major Japanese corporations having foreigners on their Boards. They need to realize that one of the most important aspects of acquisition is to acquire “talent”. If they are unable to effectively utilize the acquired talent, the acquisition is headed towards a failure,” he says.

An industry perspective
4. Industry point of view
4. Industry point of view

Nippon sheet glass – Celebrating diversity

Nippon Sheet Glass’ all-in approach to cultural integration is a rarity in corporate Japan. Not only did the company completely integrate its key acquisition – the UK-based glassmaker Pilkington that it bought 10 years ago – it now has a geographically and culturally diverse senior executive leadership team.

NSG’s former head of talent and reward and current regional HR Director Asia, Keita Kakehashi, shares some of the lessons of being the canary in the cultural integration coalmine for corporate Japan and why he thinks other Japanese firms will have to take the same path.
How important is it to achieve cultural integration following a merger or acquisition involving a Japanese company and a foreign firm?

It is significantly important to integrate the two different cultures effectively after any M&A. Especially Japanese companies should recognise the importance. Nippon Sheet Glass, a Japanese domestic company at that time, recognised somewhat the importance at the time when we acquired the UK listed company Pilkington. We invited external consultants and ran intercultural sessions both in Japan and outside Japan as soon as we had done the deal. We also assessed all of the key senior leaders and intercultural sensitivity was a part of competency used for their assessment. The challenge for us was we were not sure if those initiatives were really successful. The dilemma for such intercultural training is people will never know the importance until they face actual issues in their daily business. People who had experiences with real issues in their past career learned more than those who had less experiences. Ten years have already passed since our acquisition, and we are sure that our people learned a lot on intercultural sensitivity from their daily business. If our senior executives had been more experienced in intercultural business 10 years ago, we should have been more aware of the importance of intercultural sensitivity, but the reality was they were not 10 years ago.

What are the risks or negative effects of failing to achieve a high level of cultural integration?

There are a lot of risks with less efficient meetings, a lot of unproductive political battles, wrong management decisions, etc.

What are some barriers to effective post-merger integration?

A lack of leadership, communication, information, prioritisation would be the typical barriers.

What is the best way to achieve cultural integration?

Ideally, the best way is to identify key ambassadors who may establish trust from both sides and may influence people.

What are some areas where NSG has performed well in terms of cultural integration?

Both sides learned a lot from the 10 year day-to-day business experience. They know the pros and cons of the different cultures. I see fewer cultural conflicts now. But still because of language barriers and other gaps there are still some misinterpretations between the two.

What were some of the things that did not go so well?

Looking back 10 years ago the former Nippon Sheet Glass group was a fairly domestic company, so we realised that the reverse merger with Pilkington will heavily impact on our corporate culture. Especially at that time because Pilkington was twice as big as us in terms of revenue and in terms of headcount. And we had fewer executives on the NSG side who could manage non-Japanese staff.

We recognised somewhat the importance and we quickly started intercultural training on both sides and also we assessed the people with various competencies including intercultural sensitivity. However, to be honest I don’t know if that was really effective.

Any training on intercultural sensitivity will be effective only when people have real experiences. They need to face a cultural dilemma in their day to day business. Then any theoretically academic information provided by intercultural consultants may be beneficial.

I think we did what we could at the time. But 10 years after acquiring Pilkington we still see some conflicts between the two cultures. Two cultures means not only the former NSG culture and the Pilkington culture, but also the two national cultures. You can imagine there are big big gaps between Japan and Western countries. Still we see a lot of conflicts after 10 years. However we have learned a lot and there are more people who are experienced in non-Japanese people management and it is getting better.

What were the big cultural gaps you needed to bridge?

A typical difference between Western and Japanese culture is management style. As you are fully aware Japan is a consensus oriented country. At the same time we usually do not have a strong charismatic leader in the organisation. However once we decided all of the organisation will move to a single direction. In the Western style of leadership – although of course there is a wide variety of leaders – overall they tend to demonstrate stronger leadership. So now we have a single criteria to assess leadership potential of talent in the group that is more Westernised.
Which has changed more? The Japanese culture at head office in Tokyo or the culture at the UK subsidiary?

Our uniqueness as an organisation is that we are fully integrated. For example, looking at our HR organisation, I am responsible for group talent and human resources in Asia at the moment. I am reporting to the chief HR officer in the UK. She started her career with Pilkington, but she is currently chief HR officer. So if you asked me where is the headquarters for HR, it is a combination – she is based in UK, I am based in Tokyo and my direct reports in talent and reward are based in the UK. We are pretty much spread all over the world – our CEO is based in Japan and our COO is based in Germany. It is a lot more complex than the typical Japanese organisation.

You mentioned you have some concepts that you were still trying to get up internally – what are they?

Looking at the current group culture, our corporate culture is asset driven. A typical product-out culture, rather than market-in culture. We have a broader idea to transform our corporate culture to more customer-oriented and innovative culture. I have proposed a cultural assessment tool and want to run a survey, but people are tired of too many surveys so perhaps it was not a good time to start.

What would be your advice to Japanese companies embarking on cultural integration?

My advice to other companies is firstly to be neutral to different cultures. Even though Japanese companies originate in Japan, we should be neutral to non-Japanese culture. And then you appoint senior managers in the organisation who should be fair to any different culture. That sounds too obvious, but I see a lot of Japanese companies still treating different cultures unfairly.

Similarly the market in Japan is also the same. Even if our business started from the Japanese market, if the Japanese market is shrinking and there is not room for growth in the future, Japan is only one of many markets.

My advice is to treat non-Japanese talent, non-Japanese culture fairly. That’s my advice.

How well prepared are Japanese companies now for cultural integration and how important will it be to get this right?

My personal view is that they are not really prepared to integrate with different cultures because looking at the members of the board of directors, have a Japanese-only board. As long as the majority of members are occupied by Japanese I have doubts about whether they have enough diversity of views. Because of that most companies are not really prepared.

I saw an article about Ajinomoto, their CEO had a career outside Japan and also all of the executive committee members have expert experience. Maybe they know what they need to do more than other companies. Little by little things are changing, but maybe not the top leaders of the companies.

How important will it be for Japanese companies to invest abroad and then achieve cultural synergies?

In many cases they acquired a lot of non-Japanese operations via M&A but in most cases they isolated their headquarters in Tokyo from the operations outside Japan. As long as they leave their headquarters away from offshore operations they cannot transform their corporate culture in Tokyo.

Some companies started to separate Japan operations from non Japanese operations. That may be a practical initiative, but at the end of the day they need to integrate Japan with non-Japanese operations in the future. So I know our full integration approach is pretty unique from other Japanese companies, but maybe in five or 10 years they will face the need to integrate fully their operation into one.
5. Recommendations
5. Recommendations

Meeting the cultural challenge

Our work running research sessions with more than 20 Japanese and Western multinational companies both at their headquarters and at a subsidiary level has helped us develop a clear understanding of the challenges and a way forward. These recommendations draw on the common themes emerging from those discussions and draw on the deep expertise and experience of PwC’s advisory services in the cultural elements of post-merger integration.

Establishing cultural alignment following a merger or acquisition is important to ensure free flow of communication, remove silos, set shared goals, and establish consistent practices and performance standards between the parent and subsidiary groups. We believe by doing this, organisations will maximise the returns from the transaction and achieve synergies across the group.

Recommendation for establishing cultural alignment

1. Strategy
   - Understand the cultural context and local approaches to business
   - Include subsidiaries in defining the strategy, establishing shared goals and accountabilities
   - Foster communication and execution of strategy across the organisation to eliminate misunderstandings and clarify goals

2. Talent management & mobility
   - Ensure training programs cover soft skills as well as technical skills to boost the capability of Japanese executives to work in the global market
   - Design a global mobility program to manage risk and provide the right support and onboarding to ensure a successful posting and employee experience

3. Performance management
   - Strive for consistency in KPIs across the organisation to guide employees in executing the strategy
   - Provide timely and constructive feedback to contribute to performance improvement across the group

4. Relationships
   - Break down communication barriers that challenge the ability to build trust with various members across the organisation. Create a culturally aligned team
   - Foster collaboration across functions, countries, and headquarters to leverage expertise within the organisation and to maximise business opportunities

5. Transparency
   - Maximise involvement of subsidiaries in the decision making process to bolster understanding and acceptance of the decisions made and the impact on the wider business
   - Ensure clarity of roles (particularly of expatriates) and reporting lines to avoid confusion
   - Remove communication barriers that challenge the ability to hold constructive strategic discussions
Communication, transparency and the importance of starting early

The common thread in all of the recommendations covered in this section is both sides maintaining an open mindset and willingness to learn from one another.

Our work has highlighted the importance of achieving unity on corporate strategy for both companies, or at the very least, ensuring that the parent company’s strategy, and how it views the subsidiary in that, is adequately communicated to the other party.

Ideally, systems can be established to enable the acquired company to contribute to the overall strategy or understand how it is formulated. These systems need to be flexible enough to accommodate the different ways in which feedback is given – more subtly in Japan and more directly in the majority of Western countries.

It is important to foster a more inclusive environment where people have shared objectives. Recognise the priorities and the milestones and show mutual respect and trust on both sides. Work together to address any gaps.

Then it is about assigning the change agents from both sides and expanding the team with internal and external skills.

Global mobility is key to sustained success

The focus post merger should also turn to cultural interchange with a mobility program designed to ensure cross pollination of talent between the two companies.

89% of global organisations expect an increase in global mobility (PwC’s Modern Mobility survey) as they recognise the importance it plays on business growth and success.

In many cases, Japanese executives will not have worked abroad in a non-Japanese working environment and to make the most of the program, efforts need to be made to prepare these employees for the shift.

PwC’s Ryosuke Sasaki says managing talent is critical to implementation sessions that bring together head office personnel and executives from acquired companies in Japan are a growing trend.

“That helps non Japanese and Japanese executives get together and begin to understand the differences and opportunities,” he says.

And in foreign subsidiaries where there are issues between local and Japanese management sent to run the company, offsite workshops are being used to help develop heightened cultural awareness on both sides.

Encouraging action through accountability

Cultural education alone does not lead to cultural integration. Responsibilities focusing on cultural matters should be accounted for in assigned roles and responsibilities within Japanese companies so that executives strive to perform in this area.

As Japanese people tend not to work beyond assigned roles and responsibilities, they are unlikely to proactively venture into the realm where the issue is addressed.

The company must design for accountability in order to move forward with cultural integration.

Managing talent is critical to becoming a truly global company

The next objective, beyond this trouble-shooting stage, is global talent management. This means a system where executives can move seamlessly through the organisation taking key learnings with them. But thanks to persistent language and cultural barriers within Japanese companies there are many challenges to overcome.

Most Japanese companies are focused on clear delineation of roles and responsibilities. The roles and responsibilities that exist across the organisation, it is highly unlikely that those descriptions include areas focusing on cultural issues.”

Jason Hayes, PwC
“If a non Japanese person takes up the local CEO position, the question is how do they create a good relationship with headquarters, where the language is all Japanese?” PwC’s Ryosuke Sasaki says, adding that experiments among Japanese companies with making English the key internal language have not often succeeded.

“Japanese companies want to promote local non Japanese executives to succeed and if they are really going to be global they need to invite some of these executives to senior management in the headquarters, but non Japanese executives are not yet willing to come to Tokyo and finish out their careers.”

PwC’s Jason Hayes says “Tokyo management of returning expatriates should also be more proactive in capturing and utilising the acquired skills of returning expatriates”.

“Japanese companies don’t tend to value experience gained on international assignments. It is kind of dismissed and they go back into heavily domestic focused roles.” he says.

“If they make the investment in sending people abroad to expand their capabilities they should be putting them in roles to support the integration of newly acquired companies or to support foreign management of subsidiaries. It is about establishing an international footprint and enhancing it.”

PwC’s Aron Downey, with over 10 years experience working with and for Japanese companies and institutions, has observed that the most successful attempts at cultural integration occur when the target company is engaged early in identifying the features that have generated pride and success within that organisation. When these elements are combined with the most strategically relevant components of the acquiring Japanese firm, the best possible results are achieved. “Where there is a commitment to some adaptation and learning on both sides, the best outcomes are achieved.”

“In April 2014, Mizuho purchased selective RBS assets in North America. The portfolio was $US36bn and there were 130 people who joined from RBS at the same time. From the beginning there was strong recognition by those driving the acquisition that the cultural fit should be an important part of the due diligence. If it is too difficult to integrate because of national culture or corporate culture or both, sometimes it is better to decide that this might not be a successful acquisition. Mizuho leaders decided that RBS would be a good fit. That decision was facilitated by the fact that Mizuho has a strong view of its own culture and RBS also has a strong understanding of their culture.”

Mizuho

“If Japanese companies really want to become global there are so many cultural issues to resolve at the headquarters and there is just no easy answer yet. Some companies use regional management where, for example, a US executive can head a regional headquarters and the same in Singapore or Europe”

Ryosuke Sasaki, PwC
**Where to begin**

Achieving cultural alignment in organisations that have differing histories, cultures, geographical territories and methods can seem overwhelming. But as we have seen from the earlier sections of this report cultural alignment is vital to the success of both parties.

The sooner the two sides work on bridging these gaps the better, says PwC’s Angela Harris. “It is about getting it right from the beginning,” she says. “Investing time upfront to understand the cultural implications, and planning for them will achieve synergies earlier.” she says.

“We people want to be on the same page. It is incredibly important. Even in local mergers there are lots of complexities and when you add natural cultural traits on top of that, the complexities are magnified.”

In truth the work are should begin well before the transaction is finalised and research is vital to understand how big a cultural integration challenge the transaction will entail.

**Where culture aligns to the M&A cycle**

PwC-sponsored research conducted by the Economist Intelligence Unit found that Japanese buyers sometimes fail to move quickly enough to impose control on their acquisitions, losing the chance to set the culture they want to establish.

This research finds that Japanese companies would be well served to focus on the short term in the immediate aftermath of an acquisition and failure to act quickly can result in lack of control over management at the target company, destroying morale.

Preparation to address cultural integration challenges needs to begin well before the deal is even close to finalised.

Companies must fit the integration mandate into the research and due diligence effort so they start the integration process well before the deal is finalised.

Cultural integration activities must be embedded in the acquisition rather than included at the end as a ‘check-the-box’ exercise that is too late or too shallow to achieve results.

**Culture assessments as a success factor in mergers and acquisitions**

- **Opportunity identification**
  - High level cultural diagnostic of target companies for compatible or desirable cultures through desktop review (depending on rationale for acquisition and degree of integration planned)

- **Due diligence**
  - Detailed HR due diligence can uncover areas to investigate further for cultural alignment such as absenteeism patterns, rewards and benefit analysis, return to work analysis, spans and layers in the target company

- **Deal offer**
  - Companies that focus on culture assessments earlier in the M&A cycle (particularly when high levels of integration are required) are more likely to avoid post merger integration issues

- **First year Post Merger Integration**
  - Presentation of cultural compatibility and transformation plan as part of explanation of deal to firm and broader market (given the centrality of culture alignment to make some mergers successful)
  - Comprehensive cultural integration plan focused on 3-5 critical behaviours
  - Companies that do not focus upon culture at all, or only focus on it when it becomes a larger problem in the PMI stage are much less likely to derive the full benefits from the deal

Source: PwC M&A Expert Advice
6. Hypothetical case studies
6. Hypothetical case studies

Hypothetical Case Study – Fixing cultural problems with a major acquisition

The situation:

• A large traditional Japanese trading house acquires a subsidiary in New Zealand in the forestry industry with existing export sales in South East Asia to move closer to becoming a truly global enterprise.

• The New Zealand subsidiary has a large and growing market share in Asia and is seen by the acquirer as the solution to add scale and address declining revenue growth in Japan. It also allowed the company to have a presence in China without having to buy or establish a business there amid tense times between the Japanese and Chinese governments.

• In line with normal practice, the company took advice primarily from Japanese advisors in relation to the acquisition before deciding to acquire.

The challenges

• Immediately after the purchase it became clear how extensive the cultural misalignment between the two companies was given the parent company is a conservatively focused organisation although well versed at doing business abroad is staunchly Japanese at its core. The company it bought was a listed company that had a significant global focus and a more dynamic corporate culture. While the New Zealand company believed it was culturally aware and sophisticated through its acquisitions in Asia, it was almost totally ignorant of Japanese corporate culture.

• These differences soon translated into an atmosphere of mutual mistrust and stagnation in terms of decision making and optimising the performance of the subsidiary and taking advantage of its sales, production and manufacturing network in ASEAN countries.

• A lack of detailed research carried out in the New Zealand market meant there was a lack of recognition of the extent of the cultural integration challenge with the two companies’ views on the global economic and business environment differing significantly.

• The tendency to seek out the familiar and get advice from firms it was used to dealing with instead of those with a detailed knowledge of the New Zealand firm and its industry meant the parent company was unprepared for the aftermath of the acquisition.
Potential solutions

To remedy the lack of cultural integration between the two companies, the parent company will have to make a philosophical commitment to learn from its acquisition and aim to instil the same mentality in the New Zealand firm.

In this case, the firms would benefit from a culture-led transformation intervention to put the collaboration back on course. This would involve undertaking a cultural diagnostic and working with leaders to design a cultural integration or alignment initiative.

This should be followed by development of a detailed cross-cultural strategy developed across a series of sessions taking in key stakeholders from both organisations. It is essential that the framework that comes out of this process is communicated effectively across the combined organisations.

The company can begin to address insularity with a global mobility program to rotate New Zealand employees through the head office and Japanese staff into the New Zealand company. This will help executives and staff to gain a better understanding of different and optimal ways of doing things in different countries and cultures, and to better meet people and customer needs.

The challenge will then be to embed talent and performance management practices across the company that work effectively for employees in both locations and from both cultures.

To avoid problems occurring again in future acquisitions the company needs to invest in trusted advice outside of Japan from experts familiar with both cultures who can explain what’s needed in a culturally sensitive manner.

Hypothetical Case Study – Building on early integration success

The situation

• A Japanese consumer credit company buys an 80 per cent stake in a US lender.
• The parent company was attracted by the fundamentals of the economic and demographic picture in the US with better GDP growth and an expanding population.
• The acquisition offers the potential to offset population decline in its home market.

The challenges

• Even though the company will continue under existing management, there is always some apprehension in a post-merger/acquisition phase, particularly on the part of the acquired company. These concerns tend to be exacerbated when the acquiring company is from another country with starkly different cultural norms.
• Similarly, from the acquirer’s perspective there is a risk expertise and systems that have fuelled its success may not be adopted by the US if it takes a purely hands-off approach.
• A failure to overcome the divide and achieve cultural integration could see missed opportunities and misunderstandings on both sides.

Potential solutions

Getting together to collaboratively plan cultural alignment solutions at a corporate level will be necessary for both companies, to ensure that the transaction is both profitable and sustainable.

Both sides should be encouraged to work together to develop the overall strategy for the business and may benefit from facilitated cross-cultural strategy sessions.

Success also requires consideration of cultural awareness at employee level and an open mind from all involved. While it is important for employees travelling overseas to be culturally aware, it is equally as important for the receiving subsidiary/team.

Cultural awareness training only goes so far, people need to have genuine experiences to be able to relate the theory to practice. The companies could also consider a formal global mobility program to ignite interchange of personnel and ideas.

PwC Australia’s Japan desk lead and Global Mobility Partner Masao Kamiyama says a global mobility program (with formal policies and processes) is a valuable tool to enable companies to achieve business and growth strategies, share knowledge and allow their workforce to develop a global mindset.

“When acquiring an overseas company, business travel or international assignments are inevitable. Having a clear approach to mobility is important to enable companies to have the right people in the right place – with the right support and ensure that risk, compliance and duty of care is correctly managed,” he says.

“A mobility policy and process will ensure that those going on international assignment, in particular those from HQ to the new subsidiary, are set up for success. Clear assignment objectives, success measures, a mentor, onboarding and training procedures will impact the success of an international posting. Many companies do not consider creating or merging global mobility programs, policies and processes as part of the post merger integration activity. This not only creates risk and compliance issues, but can lead to lack of transparency, inequity amongst employees and impacts return on investment.”

Unlocking Japan’s potential | 41
7. Conclusion
7. Conclusion

Just as the impetus to invest abroad for Japanese organisations will only grow in the future, the pressure for them to reap greater synergies - both culturally and financially - from these acquisitions will also grow.

The potential of cultural integration to safeguard and drive these returns means it will become ever more important for Japanese organisations to move beyond the days of bolt-on acquisitions that are only loosely integrated into the core business. In this way, corporate Japan can build on the many advantages it has in terms of technology, capital, R&D, product development, production standards and human capital and add to this the energy, diversity and potential that these acquisitions can bring.

In this report, Unlocking Japan’s Potential, PwC has set out our approach (developed through own research and our shared experiences with Japanese companies and their leaders) to achieving cultural integration between Japanese companies and the businesses they acquire.

It is an approach that doesn’t seek to gloss over the differences between Japanese companies and foreign businesses, but utilises a deep understanding of the differing dynamics to devise ways for companies to overcome problems
before they affect performance and to also find ways to capitalise on each others’ strengths.

Indeed actively discussing these different cultural traits is at the heart of our approach, as is increasing both communication and collaboration, particular on the shared strategic goals.

Success will also depend on integrating expatriate employees into the group and exposing head office employees to the global corporate environment. At the heart of this sits mobility programs, and also new measures to better define roles and manage performance as well as establishing feedback systems.

Even in local mergers where companies of the same nationality are brought together cultural issues loom large and can often be the one single aspect that derails the merger and causes the synergies to be lost.

As we have seen in this report there are no silver bullets or easy answers, and the journey can be a long one, but it is possible and necessary to embark on the road towards cultural integration and the financial, strategic, and talent acquisition benefits it brings.
Contacts

As the global leader in professional services, PwC’s service offering continues to evolve beyond the traditional areas of advisory services in an M&A context (such as taxation and legal, due diligence, valuation, negotiation, procurement, communications and marketing) to include people and culture.

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