

The Importance of PR and Communications for Cross-Border M&A

By Jochen Legewie

Japanese people tend to think of themselves as rather shy and to be weak at self-promotion. After living in Japan for 25 years, I agree but I think it is a good thing. One of the things I love about Japan is the fact that people put high value to modesty and a certain level of restraint. That was probably the main reason for me to come to Hitotsubashi University back in 1990 instead of studying in the U.S.

Such behavior, however, can turn into a problem when Japanese go abroad and need to communicate and position themselves in an environment made of standards and rules of a much more competitive nature. It certainly is a major issue for Japanese firms operating overseas as their main objective is to successfully compete with other firms.

The internationalization of Japanese companies is an urgent task as they cannot expect growth within the domestic market, as we all know. Acquiring foreign firms has become a major tool to achieve this. Since 2010, the number and value of M&As by Japanese firms abroad have increased rapidly. According to Recof, 2015 marked a record year with more than 360 cases and an overall value of 11 trillion yen invested by Japanese companies for acquisitions overseas.

However, there is a major problem which is partially related to the above described Japanese modesty but also goes far beyond it. From what I can see through my own consulting work, Japanese companies generally tend to be very poor at cross-border M&A communications by international standards.

Before I describe five specific problems for cross-border M&A and how they relate to PR and communications, let me list up a few observations from my own consulting work.

First, media relations in Japan are traditionally very much governed by the press-club system, which is unique to Japan. A well-organized, orchestrated, simultaneous dissemination of the same information to all media makes the job relatively convenient for the PR department. There is little need for special PR tactics and strategies except for the occasional special treatment of Nihon Keizai Shimbun.

Second, there are only a few PR experts in Japanese companies. According to Keizai Koho Center, 62% of the heads of communication departments have less than five years of experience in the communication department, and the majority stems from sales and administration departments.

Third, few communication heads of Japanese firms report directly to the CEO, which is standard in most North American and European firms. There are cases where communication departments belong to finance, strategy or general affairs departments. As a result, PR and communications are still often seen as an implementer function rather than a strategic one.

However, the role of communicators that is required during complex M&A situations is not simply following rules but to drive change. It is not only about implementing carefully, but also thinking and taking action strategically. It is far from one-way communication. It is significant to listen to and interact with various stakeholders.

The communication challenges for Japanese companies become even bigger for cross-border M&A, as there are many new, unfamiliar stakeholders in different countries involved. Although foreign media in the target country play a key role, many Japanese firms and their PR departments usually do not grasp its significance.

Finally, most PR departments struggle with the task of suddenly being forced to communicate in English. This applies to: a) coordination with financial and legal advisors prior to the transaction, b) communication

with international and local media of the target country before and after the announcement, and c) effective coordination of communications with their foreign counterparts in the target company itself before and after the announcement.

All these factors combined result in 5 specific problems:

1) Japanese firms get less deals

In many M&A cases, the bidding price is not the only criteria for a successful deal. Labor unions or politicians often play an important role in favoring a certain buyer. Japanese companies tend to be reluctant to engage in individual approaches for specific stakeholders, which puts them at a disadvantage.

2) Japanese firms pay more for deals

This point is very closely related to point 1. Most Japanese firms shy away from public bidding and confrontation as they are relatively weak in presenting themselves. They either prefer to pay high prices in private deals to avoid public competition or – when forced into public bidding situations – they choose offering high premiums to shorten the public beauty contest as much as possible.

3) Japanese firms struggle in successfully integrating purchased firms

There are no objective figures to support this claim. But I know from many cases that Japanese firms tend to either take a hands-off approach or try to fully and radically integrate the bought entity into their own organization. Both approaches to post-merger integration can make sense. But both require a pro-active communications to the management, employees, customers and business partners of the target company is necessary. And this is often lacking with Japanese firms.

4) Successful integrations by Japanese firms take longer

Some Japanese firms implement a decent employee communications following international acquisitions. But I know only very few cases where Japanese firms strategically use and leverage local and national media to support the messages sent to employees, business partners and customers after the acquisition. Internal stakeholders listen to what the new management says but they believe what they read in their local and national media even more. Not using this communication channel means that the integration just takes longer to deliver results (or will even eventually fail; see point 3).

5) Acquisitions by Japanese firms rarely help to raise the share price of the acquirer

A major acquisition abroad can have a significant impact on the share price and thus the market evaluation of the company – hence pro-active communication to financial markets is important. For example, many Western firms aim to be covered in the famous Lex Column of the Financial Times right after a major acquisition as it often sets the tone in the evaluation this M&A. But such a mindset of pro-actively leveraging these media opportunities to communicate to the market is not yet too common amongst Japanese companies.

Of course, there are exceptions to above observations. Over the last few years, more and more Japanese firms have discovered and leveraged strategic communications and PR to be key success factors for overseas M&A. However, strategic positive positioning remains to be a relative weak spot for Japanese companies overall.

A certain level of modesty and self-restraint can be even positive on a company level, but they should not hinder any Japanese company from engaging in strategic PR and communications. This is even truer when it comes to positioning itself in foreign markets and in particular during cross-border M&A situations.

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