# Nine Actions for Successful Cross-border M&A

〜Toward Using Cross-border M&A as a Growth Driver〜

Ministry of Economy, Trade and Industry

## Introduction～Top Executives' Understanding of the Nature of Cross-border M&A and Firm Commitment

- **Pursuing cross-border M&As is an effective option for companies in realizing discontinuous growth to survive global competition.**

- **When Japanese companies deal with cross-border M&A, they are often confronted with many challenges--such as differences in legal and regulatory systems, languages, cultures and business practices, information asymmetry, and the difficulty in promptly and boldly dealing with drastically changing business environment. However, strategic and proactive cross-border M&A under clear management strategies is essential in achieving global-scale growth.**

- **The Ministry of Economy, Trade and Industry (METI) and the Study Group for Japanese Companies' Cross-border M&A have compiled "nine actions" that should be taken when using cross-border M&As as a driver for global-scale growth, based on the experiences of experts and companies, including top executives of companies.**

- **Top executives have an important role to play in the entire process of cross-border M&A. At many companies that are achieving growth by using cross-border M&As, top executives have first-hand understanding of the nature of these deals and take forward-looking leadership with ultimate goals in mind while maintaining a clear image of post-merger management. At the same time, they allocate enough resources and directly involve themselves in M&A processes.**

- **In particular, the top executives recognize the importance of pre-M&A processes (developing strategies and prepare carefully for M&A) and post-M&A processes (using acquisition as an opportunity to achieve global-scale growth) and commit themselves to the M&A processes over the medium to long term until post-merger management.**

- **Engaging in cross-border M&A is expanding including companies that traditionally focused on the domestic business in Japan.. In this situation, it is hoped that this "nine actions" is used by a wide variety of companies, including top executives, and will help Japanese companies to achieve further, global-scale growth.**

# Nine Actions for Successful Cross-border M&A

## List of Actions and Explanations

**<List of actions>**


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***quote from Mr. Konosuke Matsushita, Founder of Panasonic Corporation**

<Explanations>

**Action XX: …**

☑ **A Question posed to top executives.**

➢ ~~~~

Basic actions and check points that managements need to understand for effective cross-border M&A

**< Key points of note and concrete actions >**

■ …

○ …

Case examples concerning challenges and its measures according to hearing from experts and companies

**< Case examples >**

Case examples concerning challenges and its measures according to hearing from experts and companies

[Pre-M&A]

## Action 1: Define ultimate goals and story for achieving the goals.

☑ **First of all, does your company develop a clear and concrete growth strategy and story?**

- ➢ **Instead of pursuing cross-border M&A as a fixed course of action, start by clearly defining ultimate goals in a mid - long term.**
- ➢ **With those goals in mind, develop a growth strategy and story and consider multiple cross-border M&As in a well-coordinated manner.**

**< Key points of note and concrete actions >**

■ It is important to clearly define ultimate goals and a story for achieving them instead of simply considering cross-border M&A as a fixed course of action.

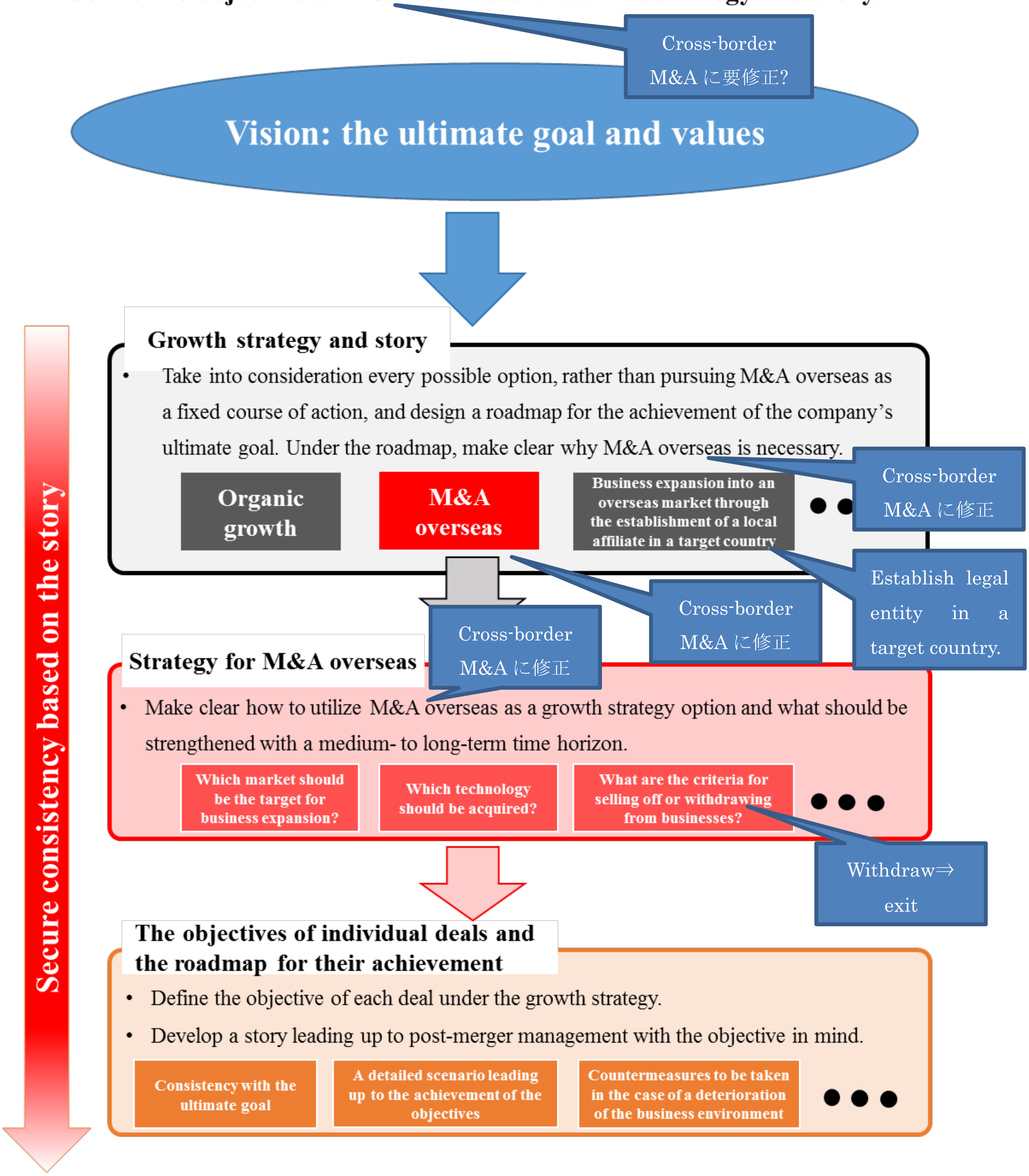
- ○ First, clearly define ultimate goals in a mid – long term, spanning decades, by allocating sufficient resources, and develop a growth strategy and story for achieving them (see the next page).
- ○ Under the growth strategy and story, clarify why the company should pursue cross-border M&A, rather than other options (such as establishing factories or sales companies or joint ventures) and also define where the company should be by cross-border M&A, and then the whole company including top executives commit to it.
- ○ Realize the synergy of the cross-border M&A by dealing with other complementary M&A deals in an effective manner instead of attempting to achieve the growth strategy through a single deal.

**< Case examples >**

- Company A make sure that cross-border M&A is for the future growth not for just expansion, Company A makes decisions throughout the M&A processes as a whole from the viewpoint of whether the deal will strengthen the company.
- Instead of pursuing cross-border M&A as a fixed course of action, Company B held internal discussions deeply on options for penetrating to the U.S. market, which is a weak area for this company, including utilization of its own, existing cross-border resources, and define a concrete strategy and story. Based on the strategy and story, the company acquired necessary function.
- Rather than using a single large-scale M&A as a stand-alone measure, Company C aims to realize synergy by engaging in an additional series of small-scale M&A that complement the original large-scale M&A.
- Because of a desire to create a foothold for cross-border business expansion, Company D started to work on an M&A deal proposed by a financial advisor. As the company accepted the target company’s information at face value without investigating and preparing sufficiently, a stream of unexpected facts came out immediately after the closing. As a result it took 10 years to put the business back on track.
- Company F places emphasis on its “story and history” when considering a growth strategy. By constantly using the history, which represents the accumulation of past experiences as a reference source, the company avoids making short-sighted or ad hoc decisions and designs a specific story for the achievement of its ultimate goal.

< Action 1: Image of the ultimate goals and stories to achieve them >

**Develop a growth strategy and story with the ultimate goals in mind and define the objective of M&A overseas under the strategy and story.**



[Pre-M&A]

## Action 2: Explain and sharing the growth strategies and stories.

☑ **Do your top executives explain the growth strategy and story by themselves within the company?**

- ➢ **Define the concrete objective of cross-border M&A for realization of the story.**
- ➢ **Clarify the responsibilities and authorities of project owners and establish a system that enables the execution team to consistently and proactively implement M&A deals.**

**< Key points of note and concrete actions >**

■ Cross-border M&A cannot be implemented by top executives and staff members involved in developing management strategy. In order to implement challenging cross-border M&A deals, it is essential to bring together with the expertise and knowledge from many department, including front office, legal and finance department and other affairs.

- ○ Broad range of department should involve in developing the growth strategy and story from an early stage.
- ○ Foster a sense of ownership among all the concerning parties within the company by having top executives explain and sharing the story for achieving growth by cross-border M&A to staff members.

■ In the case of M&A deals which authorities and responsibilities are not clearly defined, the purpose of M&A seems to be unclear as well as decision making process would be stacked.

- ○ Clarify the person who is responsible for gathering all the necessary information and overseeing the M&A processes as a whole until the completion of the post-merger integration (the project owner). Develop a system to implement M&A deals in a proactive and integrated manner with a post-merger management structure in mind (Who will manage the acquired company after the closing?).

**< Case examples >**

- ● At Company A, top executives themselves share the objectives of M&A deals internally and externally and ensure quick decision-making by placing top priority on cross-border M&A deals. Top executives address the deals with a hands-on approach until post-merger integration is complete, while closely communicating with staff members. The objectives are clarified by figures, and utilize it for incentives of staff members.
- ● From the perspective of the overall growth strategy, Company B implements multiple M&A deals as if they are putting pieces of a puzzle together and aims to realize synergy between these deals.
- ● At Company C, a single executive in charge of cross-border M&A deals is responsible for implementing cross-border M&A deals from the planning stage to the negotiation and post-merger integration (PMI) stages. Starting in the stage of pre M&A, the executive clearly states to the M&A project members that their work will not be completed until the businesses are completely integrated, the executive instill awareness of necessity to work with keeping the post-merger management structure in mind

## Action 3: Take time to carefully prepare for the forthcoming M&As.

☑ **Before starting to work on an M&A deal, do you prepare carefully with the post-merger management structure in mind (such as who will manage the acquired company and in which way)?**

- ➢ **Proactively look for and consider M&A targets that match your objectives on a routine basis.**
- ➢ **Make meticulous preparations from forward-looking perspective with a concrete image of management after post-merger integration including time schedule in mind.**

**< Key points of note and concrete actions >**

- ■ In order to handle a cross-border M&A deal as a non-routine operation, it is necessary to prepare carefully and meticulously on a routine basis.
- ■ As the first step, it is necessary to proactively look for potential targets that match the company's "story" and consider it (utilize external experts as necessary) on a daily basis. It is important to avoid hastily addressing a deal proposed by 3rd parties.
  - ○ Make a list of targets that match the company's "story" and review and maintain it periodically. Keep a close eye on the targets and explore acquisition opportunities.

    → Be careful in dealing with M&A proposed by external advisors as to whether or not the proposed deal match the company's story, whether the M&A itself is being viewed as the goal, and whether or not purpose of the deal is justified afterward.
  - ○ Look ahead beyond business integration and closely check such issues as whether the acquired company can be successfully managed, who will manage it and in what way, with a concrete image of the M&A processes, including the time schedule, in mind.

**< Case examples >**

- ● Company A prepares a short list of target companies that match its overall strategy and continuously monitors their financial and other conditions and also regularly approaches them to check if they are open to M&A. The company explains the benefits of an acquisition by Company A to the target company so that Company A could avoid competition with other potential buyers or bidding process.
- ● Company B consider deeply on how the target will be managed after its acquisition concretely, and if company B could not come up with image it, the management decide not to deal with M&A.
- ● When the target is an unlisted company and publicly-available information is limited, Company C directly visit its factories and sales sites. The company develops the business plan based on the information gained from these site visits and prepares a realistic acquisition plan.
- ● When considering the M&A in a non-English-speaking emerging country, Company D conducted background check using an expert familiar with the local business circumstances. As information related to compliance problems were found, the company decided not to address this deal.

[Deal execution]

## Action 4: Develop criteria for evaluating growth without limiting goals to acquisition itself.

☑ **Does your company including top executives involve themselves in identifying the key points and risks related to the M&A process and solutions to potential issues, not leaving it to the project team and external advisor?**

- ➢ **Keep focusing on the original objectives of cross-border M&A and define the criteria for withdrawal from cross-border M&A.**
- ➢ **Avoid taking actions to meet pre-fixed schedule or pursuing a deal as a fixed course of actions.**

**< Key points of note and concrete actions >**

- ■ During the deal process, technical knowledge and other expertise may be necessary in many cases. However, if handling these technical issues and other matters is entirely left to the project team and external advisor, an M&A tends to be justified as an end in itself.
  - ○ Concerning the whole M&A process and particularly important phases (Selecting targets, acquisition price, contracts, etc.), top executives themselves should have sufficient literacy on M&A and make decisions proactively from the viewpoints of whether the deal will contribute to their company's growth strategy and whether or not it is deviating from the company's story.
  - ○ Ensure substantive decision-making by utilizing a governance mechanism, such as investment committee.
- ■ Deciding not to deal with M&A does not necessarily mean failure. It is important to work on a deal in a calm and flexible manner while keeping alternative plans on the table, rather than rushing to close a deal with a do-or-die mentality.
  - ○ Define the criteria for withdrawal (e.g. deal-breakers) considering company's story.
  - ○ Avoid becoming overly cautious about risks and not to be satisfied with just founding risks itself. Consider how to prioritize and deal with them. Withdraw from the deal if you come to the conclusion that the initial objectives cannot be achieved.
  - ○ Engaging in negotiations under a fixed schedule tied to events such as an announcement of the deal and a board of directors' meetings would be disadvantage in negotiation process.

**< Case examples >**

- ● Company A keep in mind the following principles; "it is not necessary to rush to conclude an M&A if the cost is too high", "ignore the "Buy now, or you will regret later" argument". At one time, Company A decided not to address a deal for which it had prepared for more than two years. Three months later, Company A was approached by the target, and the conditions of the deal were in line with company A's expectation.
- ● In case of bidding process, Company B was eager to acquire a target, so it offered a high price encouraged by its financial advisor. Uncertain synergy were reflected into the price in order to justify the high bidding price, the company faced difficulties in the PMI phase.
- ● Company C's top executive was constrained by a lack of scheduling flexibility due to the pre-fixed dates such as a board of directors' meeting and an announcement of the deal. The negotiating partner took advantage of that weakness and Company C lost leverage in the final stage of deal process.
- ● Company D appointed external board member who was very familiar with Company D's strategy and who was knowledgeable about M&A and held active discussions at board of directors' meetings.

## Action 5: Take necessary actions immediately after the closing to ensure successful integration.

☑ **Do you confuse that deal closing means successful M&A?**

- **An M&A can only be called successful M&A if the M&A enables both the acquiring and acquired companies to achieve growth by taking advantage of each other's strengths. Top executives have a larger role to play after deal closing.**
- **In the integration process, initial activities are important. It is essential to immediately start taking forward-looking actions in preparation for integration without being satisfied with signing contract.**

**(1) Instead of being satisfied with deal closing, top executives must remain committed to the M&A process while spending their own time, thereby ensuring a smooth transition to the PMI phase and consistency.**

**< Key points of note and concrete actions >**

- Integration is a core process that realizes the story that the acquiring company has developed at pre M&A phase, but continuity between deal execution phase and PMI phase is not often ensured.
  - Before the deal closing, start preparing integration management team structure with PMI in mind (e.g. assigning a person who was in charge of deal execution phase as the core person of the PMI process). Ensure consistency between the deal execution phase and PMI phases.
- There are many circumstances that require top executives themselves to spend time to lead the role, such as engaging in dialogue with the top management of the acquired company and developing a trustful relationship with employees of the acquired company.
- Appointing the correct person as the top management of the acquired company is quite important. Top executives of acquiring company should involve themselves in the selection and evaluation of a new management team from an early stage while looking for suitable personnel both from internal and external human resources.

**< Case examples >**

- At Company A, the main members of the deal-execution team who are in 30s have continued to involve in PMI process. They are perform the main role in the PMI process by openly expressing their opinions to their bosses and seniors who joined the team from the PMI stage.
- At Company B, top executives held interviews with the management team of the target company starting one month before the closing of the deal with post-acquisition management in mind. After spending much time for interviewing each of fifty candidates for executive posts at the acquired company, Company B quickly determined the management team after deal closing.

**(2) In PMI, the beginning of the process is critical. In order to dispel concerns over the future on both sides, top executives of the acquiring company should engage in direct dialogue with the acquired company and share their company's philosophy and growth story.**

**< Key points of note and concrete actions >**

- Immediately after the acquisition, both the acquiring and acquired companies would be burdened with heavy workload to deal with PMI in addition to the daily operation. Concerns over the future may circulate through both companies. It is necessary to promptly take measures to dispel concerns on both sides and work on to be one team.
  - Immediately after the deal closing, top executives themselves should visit the acquired company and explain, in their own words, their company's management philosophy and the growth story of this M&A. It is important to dispel concerns related to the integration by sharing the story of growth story after the deal.

**< Case examples >**

- Based on the recognition that the key points of PMI is dialogue, Company A provides an opportunity for direct dialogue with the management team of the acquired company around once a month. In particular, understanding the tendency to hide inconvenient facts and matters that have not been fully deliberated immediately after the acquisition, the company makes efforts to develop trustful relationship so that open discussions can be held, including informal gatherings.
- Top executives of Company B could not visit the acquired company for three months after the closing because of their heavy workload. As a result, fatal delays occurred in activities such as assessing the current situation of the acquired company, coordinating management policy with the acquired company's management team, and obtaining the confidence from the acquired company's employees. Therefore, the subsequent integration did not proceed smoothly.

**(3) Assessing the current situation of the acquired company immediately after the acquisition. Define what should be done in preparation for PMI and what is required from the acquired company. Develop an integration plan at an early stage under the leadership of top executives.**

**< Key points of note and concrete actions >**

- There are limits to the extent of surveys and due diligence that are conducted before the deal closing, so it is necessary to assessing the current situation of the acquired company in more detail. It should be kept in mind that if requests to acquired company simply continue to increase, the company may become distrustful, and it may cause difficulty to gain necessary cooperation from the acquired company in some cases.
  - After the deal closing, take action immediately to understand the detailed situation of the acquired company and define and communicate any expectations to the acquired company, including necessary information for implementing PMI and realizing synergy.
  - Evaluate any issues that come to light, revise the initial story as necessary and develop and implement a detailed integration plan. Take care to develop an integration plan as soon as possible in order to dispel concerns for both the acquiring and acquired companies.

**< Case examples >**

- Before the deal closing, Company A prepared blue print carefully for post-merger management and sorted out information necessary for the management of the acquired company. After the deal closing, the company promptly put into practice the integration plan and indicated to the acquired company which information was necessary for the management of the company.
- During the deal execution process, Company B's top executives were too busy handling regulatory and other matters to consider post-acquisition governance policy. When the company presented its requests to the acquired company after the deal closing, the acquired company insisted that "we thought that we lead to management after deal closing, why does Company B is involved in management process at this time", and acquired company refused to cooperate.
- In case of bidding deal and Company C could not conduct sufficient due diligence on target, Company C conducts post-closing due diligence based on information to which it has gained access after the closing and makes use of the results in order to refine the integration plan.

[PMI]

## Action 6: Ensure the acquired company visible: “entrust to a third party but keep an eye on the situation”.

☑ **Can you assess how the acquired company is managed and grasp any changes happened in the acquired company?**

- ➢ **If you don’t handle the management of acquired companies, you cannot realize sufficient synergy and respond to crises quickly enough.**
- ➢ **Develop a system to constantly monitor what is occurring and take follow-up actions while respecting the independence of the management of acquired companies.**

**< Key points of note and concrete actions >**

- ■ It is difficult for a company in Japan to implement fully hands-on management of a foreign company in a country where the legal and regulatory systems, language and culture are different from those in Japan. In order to take advantage of the acquired company’s strengths, it is necessary to delegate certain degree to the local management team. However, if the acquiring company delegate too much, it becomes difficult to realize sufficient synergy and respond quickly enough to issues that may occur at the acquired company.
  - ○ Make thorough efforts to enhance transparency in terms of both management information and decision-making with the approach of “entrust to a third party but keep an eye on the situation ”

    Example of transparency

    - ▪ Make clear the missions for acquired companies’ management by setting key performance indicators (KPIs).
    - ▪ Develop rules intended to enhance transparency, including the requirement for the periodic reporting of KPIs/important business indicators and financial data.
    - ▪ Define the scope of delegation (regulations concerning the responsibilities and authorities).
    - ▪ Dispatch personnel to serve in important positions.
    - ▪ Engage in close communication with acquired companies’ management teams (visit the companies and having phone calls and emails frequently).
    - ▪ Reduce communication cost by adopting common IT systems.

**< Case examples >**

- ● The vice president of Company A who is in charge of M&A participated in the negotiation with an acquired company at key points and showed a commitment to the target, thereby developing a long-term trustful relationship. Not only top executives involve themselves in the process, but a person in charge of business operations in Japan also continuously engaged in telephone communication with the acquired company once a week. In this way, Company A collected feedback concerning frustrations felt by the acquired company through both formal and informal channels.
- ● Company B introduced an electronic decision-making system at an acquired company. Even in matters over which the acquired company’s CEO has exclusive jurisdiction, this system has enhanced transparency over the decision-making process by making it possible for Company B’s senior managements to keep watch over opinions expressed during the process.
- ● Company C dispatched an employee with experience of living and working abroad to an acquired company; however, the employee did not have a clear mandate or reporting line, nor could be blended with the acquired company. This situation made it impossible for the secondee to participate in important decision-making process or collect management information. As a result, Company C failed to detect a deterioration of the local business environment and was late in taking necessary actions.

[PMI]

## Action 7: Make best efforts to communicate one's own strengths and philosophies to acquired companies.

☑ **Does your company communicate its strengths and management philosophy to acquired companies?**

- ➢ **Summarize the strengths and philosophy as a simple and clear message so that companies with different languages and cultures can understand them and develop respectful relationship mutually.**
- ➢ **Shift from a relationship between the acquiring and acquired companies to "We" moving toward the same goal so that growth can be achieved by taking advantage of each other's strengths.**

**< Key points of note and concrete actions >**

■ Synergy is realized only if the acquiring company provides its strengths to the acquired company while taking advantage of the acquired company's strengths. Communicating the acquiring company's knowhow and management philosophy to acquired companies and gaining their understanding is an important part of the integration process. It is necessary to explain strengths and management philosophy to foreign companies with different languages and cultures.

- ○ Obtain the respect of acquired companies and develop common values by communicating your company's strengths and corporate philosophy as a simple and clear message and by showing the strengths first-hand. Encourage voluntary cooperation from acquired companies so that integration can proceed smoothly.
- ○ In order to obtain respect from acquired companies, top-level communication is important. Top executives should perform inter-personal skills and leadership, rather than leaving communication entirely to the project members, to win the trust from acquired companies and develop a relationship under which the two sides provide each other's strengths.

**< Case examples >**

- After Company A implemented an acquisition with the aim of acquiring the target company's technological capability and customer base, Company A transferred its own strengths, such as sales and monetization capability and the remuneration system designed to raise employee motivation at the acquired company. As a result, the two companies' strengths complemented each other, making it possible to aim for further growth.
- Company B revised the format of monthly reports in order to ensure that acquired company could understand first priority for Company B is safety, legal compliance and quality rather than cost. The acquired companies place the priority on safety and quality, which is entrenched not only at Company B but also at its partner companies. Company B also openly shares compliance and safety issues that arise in workplaces with the acquired companies as a sort of warning.
- Company C globally shares its corporate philosophy, about which it cares strongly.

[Post-PMI (Review of past activities and preparations for the next steps)]

## Action 8: Accomplish one's own transformation and enhance global-scale management skill through cross-border M&A.

☑ **Do your company's quality of management, systems and human resources work as global standards?**

- ➢ **Use cross-border M&A as an opportunity to take measures transforming your company, such as developing human resources policy and revising internal rules, in order to raise the quality of management level to global standards.**
- ➢ **Identify your company's strengths and weaknesses from a global perspective and actively introduce excellent systems and human resources from acquired foreign companies.**

**< Key points of note and concrete actions >**

- ■ It is impossible to communicate with foreign companies based on the Japanese style of communication that relies on tacit or intuitive mutual understanding. It is necessary to refine management philosophy and internal rules so that they can be understood by foreign companies.
  - ○ Use cross-border M&A as an opportunity to refine your company's internal rules (e.g. compliance rules), management philosophy and code of conduct from the viewpoint of applying them to foreign companies (instead of merely translating Japanese texts into a foreign language) so that they can be shared and spread throughout the whole group.

- ■ It is very laborious to integrate IT, accounting, HR, other systems and reform global operations, so these processes tend to be not dealt with. However, if they are not dealt with, intra-group communication and decision-making may be significantly impeded and synergy cannot be fully realized.
  - ○ Incorporate excellent systems of acquired foreign companies and use cross-border M&A as an opportunity to reform global operations and management systems.

- ■ In order to achieve global-scale growth, it is essential to foster competent personnel, particularly next-generation leaders who may be assigned to manage foreign subsidiaries in the future.
  - ○ Foster personnel who have the ability to communicate across the barriers of nationality, language and culture and who can perform leadership by seconding young employees cross-border and assigning them to responsible positions while incorporating competent foreign employees from acquired companies.

**< Case examples >**

- ● Company A realized that it doesn't have enough talented human resources, therefore actively appointed employees from the acquired company for important positions, including senior management positions at its head office. For this purpose, the company developed a global personnel management system.
- ● Company B already had a cross-border network, but as a result of an objective comparison with acquired company's cross-border network, it realized that the acquired company was superior in terms of both human resources and sales capability. Despite some resistance by Company B employees, the company adopted the new practices based on evaluation of the results and this approach led to the enhancement of global sales capability.

[Post-PMI (Review of past activities and preparations for the next steps)]

## Action 9: Become experts on cross-border M&A by accumulating experience.

☑ **Has your company developed a system to learn and act on the lessons from past experiences and difficulties?**

- **Past experiences and difficulties, including failures, are the best source of learning. Your company, as an institution, should look back the past deal honestly and everyone from top executives should share the lessons learned and knowhow.**
- **Establish your own style for implementing M&A and make preparations to apply it to future cross-border M&A.**

**< Key points of note and concrete actions >**

- Companies which are now recognized as effective M&A player were not necessarily successful player from the beginning. It is important to develop a body of explicit knowledge and practices based on the experiences and lessons learned from past M&A deals for company-wide use.
  - Look back at the experiences of past M&A deals, and sharing lessons learned and knowhow and experiences of acquired foreign company in order to develop a reliable style for implementing M&A. Make sufficient preparations for future M&A deals on a daily basis.

- In the case of cross-border M&A, broad range of technical capability and experiences are required.
  - Systematically hire and train personnel with M&A literacy, including internal and external resources, not only within a dedicated M&A division but also in other divisions responsible for front office and back-office operations such as legal, financial and tax departments.

**< Case examples >**

- At Company A, M&A implementing department take the initiative in interviewing personnel who handled past M&A deals and summarizing their experiences and lessons learned as a reference list of past cases, classified by acquisition objective and stage, which was shared with strategy planning personnel in front office. Many issues and bottlenecks were recognized as a result of the review of past deals, so the company develops its experiences of past M&A deals into a body of explicit knowledge that serves as a reference for future deals.
- Company B assigns personnel familiar with the situation of front office to M&A implementing department and makes efforts to enhance the M&A capabilities of front office by doing the reverse. The legal and financial department was encouraged providing proactive support, rather than focusing only on conducting negative checks.

The descriptions of case examples taken up above
have been partly modified for editorial reasons.

“Nine Actions for Successful Cross-border M&A” and “the Study Group for Japanese Companies’ Cross-border M&A”

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