

Do Foreign Shareholders Change Japanese Firms? *

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ABSTRACT

This paper examines foreign firms' partial acquisition of established Japanese firms. Using a small sample but systematic analysis, we found that established Japanese firms, which are partially acquired by foreign firms, improved in profitability after the investment, while their growth rate did not change. Moreover, we found that foreign firms' shares of ownership and foreigners' representation on the boards of acquired Japanese firms have a positive association, and the size of acquired firms has a negative association with improvement in profitability. These results suggest that subsequent to investment, foreign shareholders with strong commitment can improve the profitability of Japanese firms.

Introduction

In Japan, foreign firms' direct investments have frequently changed Japanese firms in several ways. 100% owned subsidiaries and joint ventures of foreign parent companies with their distinctive competitive advantages might disturb competitive forces, bring new foci of competition, and intensify competition.¹ Japanese firms, competing with them in the market, might imitate and adopt new competitive strategies and management systems.² However, there is another way for foreign direct investment to change Japanese firms.

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¹ For example, Toys"R" Us has brought changes to the distribution system in Japan, and sells toys and other goods at lower prices than its Japanese competitors (Negishi and Tamehiro, 2001). Coca Cola became the top drink manufacturer with its distinctive products and superior marketing strategies (Oketa, 1988). Inward FDI directly intensifies competition by increasing the number of suppliers and decreasing market concentration. However, domestic firms might merge or exit in response to entry of foreign firms. For example, AEON, one of the largest GMS acquired the equity of Inageya, a mid-sized superstore in response to the Wal-Mart's entry into the Japanese market. Therefore, inward FDI might indirectly weaken competition. Uekusa (1982) selected 32 industries where the foreign firms occupied a certain market share in 1976. He compared market concentration of these industries in 1966 with that in 1976, and concluded that market concentration did not increase after entry of foreign firms. Further empirical analysis is needed to assess the impact of entry of foreign firms on competition.

² In response to such entry, domestic firms might increase advertising or reduce prices (Williamson, 1986; Cubbin and Domberger, 1988; Yamawaki, 2002).

Apart from Japanese firms that change themselves by learning from foreign competitors in the market, a foreign firm which acquires shares of an established Japanese firm can directly induce change within the Japanese firm, because of its position as a major shareholder. The foreign shareholder may change strategies and management systems, and send executives to sit on the board of directors of the Japanese firm.

Several researchers studied foreign subsidiaries and joint ventures in Japan (Yoshihara, 1994; Yamawaki, 1999; Asaba and Yamawaki, 2002). However, no systematic study on foreign firms' partial acquisition of established Japanese firms exist, although there are several anecdotes. Can foreign shareholders change an established Japanese firm? How can they change it? Under which conditions can foreign shareholders effectively re-create an established domestic firm? This paper explores such questions.

The structure of this paper is as follows: Section 2 examines background and examples of foreign direct investment into Japan, especially foreign firms' partial acquisition of established Japanese firms, and proposes several hypotheses. Section 3 describes the data and methods. Section 4 reports the results of the statistical analysis. Section 5 summarizes the main findings and concludes the paper.

1. Foreign Direct Investment in Japan and Hypotheses

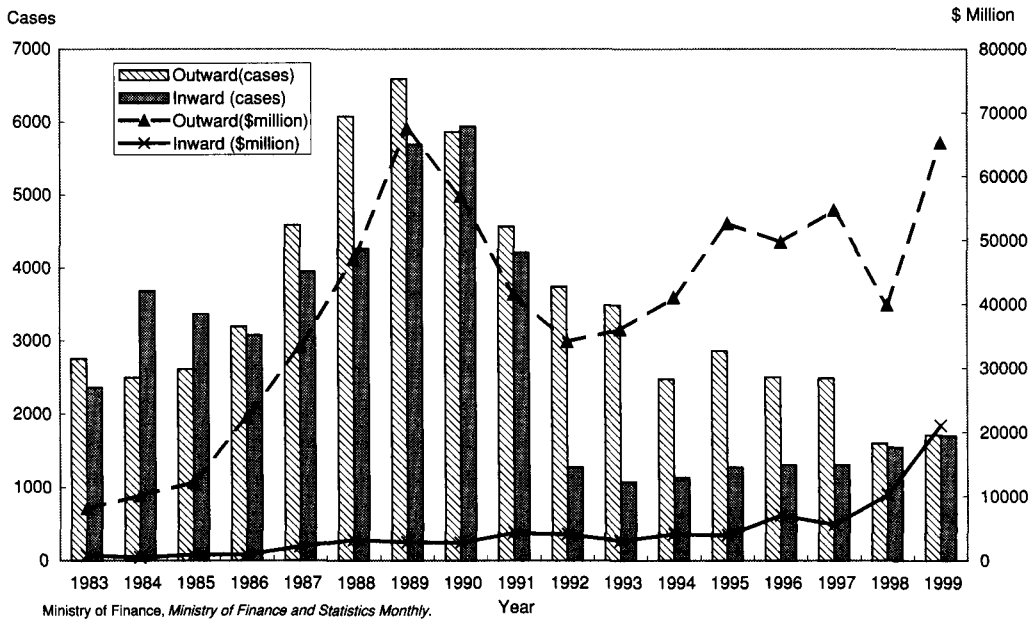
(1) Situation of Foreign Direct Investment in Japan

It is well-known that the flow and stock levels of inward foreign direct investment (FDI) in Japan is significantly low (Yoshitomi, 1996). For most of the postwar period, the Japanese government sought to severely restrict inward FDI. Liberalization began in the late 1960s and culminated in the rewriting of the Foreign Exchange Control Law in 1980. The growth of FDI into Japan has been rapid over the course of the late 1980s and early 1990s, however, FDI levels in Japan relative to GNP are still quite low (Weinstein, 1996). The ratio of FDI inflow to GNP in Japan is 0.1 to 0.2 per cent, which is one-tenth that of the United States, the United Kingdom, and France. The ratio of stock of FDI to GNP shows almost the same trend as the FDI flow ratio (Wakasugi, 1996).

Figure 1 shows the transition of outward and inward FDI in Japan. Looking at the transition of FDI in terms of the amount of investment, inward FDI in Japan has always been at a lower level than outward FDI. However, while outward FDI has varied greatly, inward FDI increased a little in the mid 1980s and has been growing since the mid 1990s. Consequently, the ratio between outward and inward FDI has rapidly decreased from 10.0 in 1983 and 23.6 in 1989 to 3.1 in 1999. Moreover, the number of cases of outward and inward FDI peaked in 1989 and 1990 respectively, and then decreased rapidly. While outward FDI is still sluggish, inward FDI has been gradually increasing since the mid 1990s. Therefore, in terms of the number of cases, inward FDI has recently become almost comparable to outward FDI.

On the other hand, there are fewer cases of foreign firm's partial acquisition of established Japanese firms than other kinds of FDI. According to *Kigyo-betsu Gaishi Donyu Soran (A Comprehensive Directory on Introduction of Foreign Capital by Firm)* from 1995 to 2000, only thirty-five instances were identified. Six such investments took place in the 1970s, eight in the 1980s, and twenty-one after 1990. Therefore, partial acquisition shows an increasing trend. It is probable that declining stock prices and the poor condition of Japanese firms in the recently stagnant economy has led Japanese business to ask foreign firms for assistance in the form of investment.

Figure 1: Transition of Outward and Inward FDI



Among the recent cases, Renault's partial acquisition of Nissan Motor Co., Ltd. is most notable.³ Nissan suffered as a result of a huge debt burden and the serious post-bubble recession in the late 1990s. The company's formerly second place market position in the Japanese automobile market was taken by Honda in 1997, and Nissan reported a 14 billion yen net loss in 1998. Nissan looked for a foreign partner to rescue the company, and consequently Renault purchased 1,464 million newly issued shares of Nissan common stock, representing 36.8% ownership and entered into a partnership with the Japanese automotive firm.

Renault recruited Carlos Ghosn, its 45-year-old executive vice president, to turn Nissan around. After interviewing several hundred employees at all levels, Ghosn identified Nissan's problems in terms of what was lacking: a profit orientation, customer focus, cross-functional management, cross-border orientation, a sense of urgency, and a shared vision and long-term strategy. At the shareholder meeting a new board of directors was elected and Ghosn was appointed COO. Nissan's new board included Ghosn and two executives representing Renault.

Ghosn formulated the Nissan Revival Plan and implemented many policies to re-create the company: forming cross-functional teams in key areas, cutting purchasing costs, reducing the number of consolidated affiliates (keiretsu companies), closing three plants, rebuilding the sales organization, creating a global organization, modifying the personnel system (to include performance linked wages and stock options), and strengthening new product development.

³ This description of Nissan is based on "Nissan Motor Co., Ltd., 2002," *Harvard Business School Case*, 9-303-042.

The plan succeeded; Nissan revived dramatically. In May, 2002, operating profits and net profit had jumped 68% and 12.4% respectively, from the previous year. Carlos Ghosn proudly announced, "We have achieved the goal set in the Nissan Revival Plan a year ahead of schedule."

(2) Hypotheses

As described above, Nissan revived dramatically after Renault acquired partial ownership and Ghosn implemented various policies. While previous presidents of Nissan had also tried to restructure the company, the performance had not improved. The example of Nissan suggests several reasons why foreign firm's partial acquisition can successfully change established Japanese firms in trouble.

In contrast to Japanese shareholders, often called silent shareholders, foreign shareholders put more pressure upon the acquired firm to hasten change. They often elect foreign executives to the board of Japanese firms, and hire executives who implement restructuring policies. Since foreign stockholders and executives are free from conventional views of the firm and the industry, they can objectively diagnose problems, and take drastic measures. They can introduce new strategies and management systems into the acquired firm. Thus, we have a hypothesis that established Japanese firms, partially owned by foreign firms, can improve their performance.

However, it is often pointed out that foreign firms tend to care about their profitability, while Japanese firms tend to pursue growth (Kagono et al., 1985; Asaba, 2002). Foreign shareholders might have a bias to direct change in the partially acquired Japanese firm away from a growth-orientation toward a profit-oriented strategy. Therefore, we have two hypotheses as follows:

H1a: Established Japanese firms, partially owned by foreign firms, improve their performance in terms of profitability.

H1b: Established Japanese firms, partially owned by foreign firms, do not improve performance in terms of growth.

Foreign shareholders and the executives they appoint can improve the performance of established Japanese firms in several ways. In the same way that Ghosn strengthened new product development at Nissan to develop more attractive cars, foreign shareholders might stress that performance of acquired Japanese firms be improved by increasing value added. In the same way that Ghosn also cut purchasing costs, foreign shareholders might require the management of acquired firms to lower costs of good sold. Ghosn also changed the wage system at Nissan. Japanese firms owned by foreign firms often lay off their employees. Therefore, acquired Japanese firms might lower sales, general, and administration costs. Moreover, foreign shareholders might seek to improve the financial structure of the acquired Japanese firm by mitigating its dependence on debt.⁴ Thus, we have the following hypotheses:

⁴ One of the successful alliances in the automotive industry is the alliance between Ford and Mazda. While Ford learned manufacturing and product development from Mazda, the latter learned international marketing and financial management from the former. See "Partners," *Business Week*, February 10, 1992.

H2a: The value added of established Japanese firms increases after foreign investment in equity.

H2b: The labor productivity of established Japanese firms increases after foreign investment in equity.

H2c: The cost of goods sold of established Japanese firms declines after foreign investment in equity.

H2d: The sales, general, and administration costs of established Japanese firms declines after foreign investment in equity.

H2e: The net interest costs of established Japanese firms declines after foreign investment in equity.

While foreign shareholders might put more pressure upon the Japanese firms they partially own than Japanese shareholders, the degree of pressure varies depending upon the share of ownership. Moreover, a foreign firm which has purchased a large stake in a Japanese firm tend to condition the investment on board level representation in order to instigate change within the Japanese firm. Therefore, we have the hypotheses as follows:

H3a: The larger the share of equity purchased by a foreign firm is, the more likely it is that the established Japanese firm will improve its performance.

H3b: The higher the ratio of foreign executives on the board of directors of the Japanese firm partially owned by a foreign firm is, the more likely it is that the established Japanese firm will improve its performance.

While we argued before that an executive dispatched from a foreign firm can be free from conventional views prevalent in Japanese enterprise and thus implement more drastic reform than managers promoted from within the Japanese firm, the foreign executive might face resistance from other organizational members who cling to conventional ways of thinking when he or she re-creates the firm. Large firms with a long tradition tend to resist drastic change. Thus, we have the following hypotheses:

H4a: The larger an established Japanese firm partially owned by a foreign firm is, the more difficult it is to change

H4b: The older an established Japanese firm partially owned by foreign firms is, the more difficult it is to change.

2. Data and Methods

(1) Data Sample

The data sample for this study was collected from Keizai Chosa Kyokai, *Kigyo-betsu Gaishi Donyu Soran, Jojo Kigyo-hen* (Association of Economic Inquiry, *A Comprehensive Directory on Introduction of Foreign Capital by Firm, Listed Company version*) for each year from 1995 to 2000. This directory lists foreign firms' acquisition of the stock of Japanese firms listed on the Tokyo stock exchange and their subsidiaries, and foreign firms' establishment of joint ventures with Japanese listed firms. The directory also lists large contracts between foreign and Japanese listed firms such as import and domestic sales of products and transfers of technology.

As pointed out before, for the period we investigated, only thirty-five cases of foreign firms' partial acquisition of Japanese firms were identified. Among these, we selected twenty-four cases for which sufficient quantitative information of the acquired Japanese firms could be obtained. Six partial acquisitions took place in the 1980s, seven in the first half of the 1990s, and eleven were consummated in the latter half of the 1990s. Eight cases were in the Motor Vehicle and Parts industry and three were in each of Chemicals and Drugs industries. (Table 1).

Table 1 : Partial Acquisitions in the Sample

Industries	1982-1989	1990-1995	1996-2001	Total
Foods			1	1
Chemicals	2		1	3
Drugs	1	1	1	3
Machinery	1		1	2
Electric & Electronic Equipment		2		2
Motor Vehicles & Parts	1	3	4	8
Precision Instruments	1	1		2
Other Manufacturing			1	1
Construction			1	1
Services			1	1
Total	6	7	11	24

(2) T-Tests

To see whether an established Japanese firm improves its performance after a foreign firm's partial acquisition, we performed paired two sample t-tests for difference. For performance measures, this study adopted profitability (net income divided by total assets) and sales growth rate (difference of sales in year t and $t-1$ divided by sales in year $t-1$). We calculated these two types of measures for each fiscal year designated $t-3$, $t-2$, $t-1$, $t+1$, $t+2$, $t+3$ (for the three respective fiscal periods preceding and following the period of acquisition). To control for industry effect, we calculated adjusted profitability and growth rate, using the difference between the value of the firm and the industry average. Then, we compared the adjusted measures for each matched pair of periods, $t-j$ and $t+j$ (for $j=1, 2$, and 3). *H1a* predicts that the mean difference of the adjusted profitability between $t-j$ and $t+j$ is not 0, that the mean for the period $t+j$ is higher

than the mean for t-j. On the other hand, *H1b* predicts that mean difference of the adjusted growth rates between t-j and t+j is either 0, or the mean for the period t-j is higher than the mean for t+j.

Next, to see how the foreign shareholders change and improve the performance of Japanese firms in which they invest, we examined the five indicators: value added divided by sales, labor productivity (value added per capita), costs of good sold divided by sales, SG&A (sales, general, and administration) expenses divided by sales, and net interest costs divided by sales (net interest cost = interest and discounts paid - interest and dividends received). Comparisons of matched pairs of the five indicators for the fiscal periods t-1 and t+1 were made, after adjusting the values by subtracting from each indicator an industry average value. *H2a* through *H2e* predict that mean difference of each indicator pair for periods between t-1 and t+1 is not 0 and the mean for t+1 is better than that of t-1.

All the data for these variables were obtained from *Nikkei Keiei Shihyo, Jojo Kigyo-ban (Nikkei Financial Analysis, Listed Company Version)* in each year.

(2) Regression Analysis

Next, to investigate under what conditions foreign shareholders can effectively change the Japanese firms which they partially acquire, we ran several regressions. The dependent variable is *PROFITCHANGE*, the difference in adjusted profitability between t-1 and t+1 defined as follows:

$$\begin{aligned}
 \text{PROFITCHANGE} &= \text{adjusted profitability of firm } i \text{ in year } t+1 \\
 &\quad - \text{adjusted profitability of firm } i \text{ in year } t-1 \\
 &= (\text{net income/sales of firm } i \text{ in year } t+1 \\
 &\quad - \text{industry average of net income/sales in year } t+1) \\
 &\quad - (\text{net income/sales of firm } i \text{ in year } t-1 \\
 &\quad - \text{industry average of net income/sales in year } t-1)
 \end{aligned}$$

We constructed four independent variables, *FSHARE* is the foreign firm's share of the Japanese firm to test *H3a*, which stated that a higher share of ownership would more likely lead to better performance of the partially acquired Japanese firm. The data for this variable were collected from *Kigyo-betsu Gaishi Donyu Soran* for each year. The coefficient of this variable is expected to have a positive sign.

Second, to examine *H3b* which described the relationship between improvement of performance and foreigners' representation on the board of directors, we constructed *FBOARDSHARE*, the number of foreign board members divided by the total number of board members. This variable is expected to have a positive sign.

Third, *H4a* described the relationship between improvement of performance and the size of the established Japanese firm. We adopted sales of the firm in year t-1 as a measure of firm size (*SALES*). The coefficient of *SALES* is expected to have a negative sign.

Finally, to test *H4b*, which stated that it is difficult for foreign firms to instigate change in Japanese firms that have a long tradition, we constructed the variable *AGE* as the difference between the year of establishment of the Japanese firm and year t. The coefficient of this variable is expected to have a negative sign. The data sources used for of *FBOARDSHARE*, *SALES*, and *AGE* were the financial reports of

each firm. The mean, standard deviations, and a correlation matrix of these variables are described in Table 2.

Table 2 : Mean, Standard Deviation, and Correlation Matrix

	<i>PROFITCHANGE</i>	<i>FSHARE</i>	<i>FBOARDSHARE</i>	<i>SALES(¥1000000million)</i>	<i>AGE(100 years)</i>
<i>PROFITCHANGE</i>	1				
<i>FSHARE</i>	0.3983	1			
<i>FBOARDSHARE</i>	0.5007	0.7198	1		
<i>SALES(¥1000000million)</i>	-0.1419	0.1920	0.3717	1	
<i>AGE(100 year)</i>	-0.0389	0.2431	0.0359	0.2436	1
Mean	5.5229	0.2452	0.1380	0.4612	0.5267
Standard Deviation	3.7675	0.0336	0.0298	0.1788	0.0240

3. Results

(1) T-Tests

The results of paired two sample t-tests for difference are reported in Tables 3 and 4. The tests in the left portion of Table 3 are comparisons of profitability before and after partial acquisitions. If the profitability of established Japanese firms improves after foreign investment, the means of the measures should be larger in the later periods. In all pairs of indicators the results show that the mean of profitability is higher after partial acquisition than before. The null hypothesis that the mean difference is zero can be rejected in the comparison between t-1 and t+1, however due to the small number of observations the null hypothesis cannot be rejected in the comparisons of the other pairs.

Table 3 : Paired Two Sample t-Tests for Difference of Profitability and Growth Rate

Net Income/Assets			Sales Growth		
	t-3	t+3		t-3	t+3
Mean	-4.74	-3.59	Mean	-6.97	-5.01
Variance	117.28	103.53	Variance	124.68	123.54
Observations	13	13	Observations	13	13
Hypothesized Mean Difference	0		Hypothesized Mean Difference	0	
degree of freedom	12		degree of freedom	12	
t Stat.	-0.32		t Stat.	-0.50	
P(T<=t) one-tail	0.38		P(T<=t) one-tail	0.31	
	t-2	t+2		t-2	t+2
Mean	-2.10	-1.19	Mean	0.71	-0.80
Variance	10.66	13.64	Variance	273.26	222.99
Observations	20	20	Observations	20	20
Hypothesized Mean Difference	0		Hypothesized Mean Difference	0	
degree of freedom	19		degree of freedom	19	
t Stat.	-0.86		t Stat.	0.28	
P(T<=t) one-tail	0.20		P(T<=t) one-tail	0.39	
	t-1	t+1		t-1	t+1
Mean	-7.04	-1.52	Mean	-3.59	0.93
Variance	340.32	20.98	Variance	58.68	230.20
Observations	24	24	Observations	24	24
Hypothesized Mean Difference	0		Hypothesized Mean Difference	0	
degree of freedom	23		degree of freedom	23	
t Stat.	-1.47		t Stat.	-1.21	
P(T<=t) one-tail	0.08		P(T<=t) one-tail	0.12	

The tests in the right portion of Table 3 are comparisons of growth rates before and after partial acquisitions. If foreign shareholders emphasize profitability rather than growth, the means of the measures should either not be different between the pairs or should be higher before acquisition than after. The results indicate that in the pairs of $t \pm 1$ and $t \pm 3$, the means of the growth rate are higher after acquisition but in the $t \pm 2$ pair the mean is higher before acquisition than after. Moreover, the tests do not give statistical evidence that the growth rates before and after investment are significantly different. Therefore, the null hypothesis that the difference in mean values is zero cannot be rejected for the composite set of pairs.

These results indicate that established Japanese firms, partially owned by foreign firms, improve their performance. Profitability tends to rise after investment, while growth rate does not seem to change. These results suggest that foreign shareholders emphasize profitability rather than growth rate and are consistent with hypotheses *H1a* and *H1b*.

Table 4 reports paired two sample t-tests for differences of value added, labor productivity, and cost indicators previously mentioned. The results show that value added and labor productivity improved and cost of good sold and net interest costs decreased after partial acquisition, but S.G.&A. expense increased.⁵ The null hypothesis that the mean difference is zero cannot be rejected for the indicators of value added, productivity, cost of good sold, and S.G.&A. expense. Therefore, *H2a*, *H2b*, *H2c*, and *H2d* are not supported.

Table 4 : Paired Two Sample t-Tests for Difference of Other Indicators

Value Added/Sales			S.G.&A. Expense/Sales		
	t-1	t+1		t-1	t+1
Mean	-2.22	-1.21	Mean	1.82	2.19
Variance	119.89	75.57	Variance	42.17	40.69
Observations	24	24	Observations	24	24
Hypothesized Mean Difference	0		Hypothesized Mean Difference	0	
degree of freedom	23		degree of freedom	23	
t Stat.	-0.62		t Stat.	-0.79	
P(T<=t) one-tail	0.27		P(T<=t) one-tail	0.22	
Labor Productivity (Value Added per capita)			Net Interest Cost/Sales		
	t-1	t+1		t-1	t+1
Mean	-366.97	-290.82	Mean	0.73	0.21
Variance	187147.44	123820.24	Variance	5.23	5.48
Observations	24	24	Observations	24	24
Hypothesized Mean Difference	0		Hypothesized Mean Difference	0	
degree of freedom	23		degree of freedom	23	
t Stat.	-0.815		t Stat.	1.71	
P(T<=t) one-tail	0.212		P(T<=t) one-tail	0.05	
Cost of Good Sold/Sales					
	t-1	t+1		t-1	t+1
Mean	4.44	2.89			
Variance	57.70	49.12			
Observations	24	24			
Hypothesized Mean Difference	0				
degree of freedom	23				
t Stat.	1.28				
P(T<=t) one-tail	0.11				

⁵ These results might suggest that foreign shareholders encourage cutting costs, but not necessarily all kinds of costs. Even increases in some types of S.G.&A. expenses might be needed to revitalize the acquired firm. In case of Nissan, for example, Ghosn spent a great deal of money on R&D to develop better new model cars.

However, the null hypothesis can be rejected for the means of the net interest cost-sales ratios. This result suggests that foreign shareholders try to reduce Japanese firms' dependence on debt. This result is consistent with *H2e*.

(2) Regression Analysis

Next, we examined the conditions under which foreign shareholders can improve the performance of their acquired Japanese firm. The regression results are shown in Table 5. *FSHARE*, foreign firm's share of the Japanese firm, is significantly positive at the 5% level in all three models containing this variable. This result shows that the greater the share owned by foreign firm(s) the more likely the established Japanese firm is to improve its performance, thus *H3a* is supported.

Second, *FBOARDSHARE*, the foreign firm's share of seats on the board of the Japanese firm, is also significantly positive (at 1% in two models and 5% in one model) in all three models containing this variable. This fairly strong result indicates that the more seats on the board of the Japanese firm that are occupied by foreigners, the more likely the acquired Japanese firm is to improve its performance, thus *H3b* is supported.

Third, *SALES*, the sales (in trillions of yen) of the Japanese firms are always negative, and are significant in models (4) and (6) at the 10% level. This result suggests that the larger the established Japanese firm, partially owned by foreign firm(s) is the more difficult it is to change, thus *H4a* is supported.

Finally, *AGE*, the time period (10 years) from the establishment of the Japanese firm to partial acquisition is negative (in all but model (6)) as we expected, but it is not statistically significant. Therefore, *H4b* is not statistically supported.

Table 5 : The Regression Results

	(1)	(2)	(3)	(4)	(5)	(6)
<i>Const</i>	-4.43 (-0.69)	5.54 (0.75)	3.17 (0.19)	-2.00 (-0.46)	1.45 (0.09)	-4.68 (-0.30)
<i>FSHARE</i>	49.58 (2.23)**	48.62 (2.13)**	51.89 (2.25)**			
<i>FBOARDSHARE</i>				81.32 (3.46)***	63.66 (2.67)**	81.58 (3.38)***
<i>SALES</i>	-4.78 (-1.15)		-4.34 (-1.00)	-8.12 (-2.05)*		-8.20 (-1.98)*
<i>AGE</i>		-22.68 (-0.71)	-15.9 (-0.49)		-8.95 (-0.30)	5.17 (0.18)
R^2	0.21	0.18	0.22	0.38	0.25	0.38
adjusted R^2	0.13	0.10	0.10	0.32	0.18	0.28
No. of Obs.	24	24	24	24	24	24

Numbers in parentheses are t-statistics.

The levels of significance for a two-tailed test are: *=10%, **=5%, ***=1%.

4. Conclusion

The various kinds of foreign direct investment in Japan have had significant impact on Japanese firms in a number of ways. This paper focused specifically on foreign firms' partial acquisition of established Japanese firms. When encountered with difficult problems Japanese firms may turn to foreign firms for rescue. Other Japanese firms that have introduced technology and products originating from foreign firms might want to build closer linkages. In either of these cases, the foreign firms may acquire shares (of stock) in the Japanese firms. A foreign firm that partially owns a Japanese firm can directly influence it by requiring the acquired firm to change strategies and management systems as a shareholder and by having executives elected to the board of the Japanese firm. Anecdotes exist of established Japanese firms, in part being purchased by foreign firms, and then experiencing revival, yet to the best of our knowledge, this is the first systematic study of this topic.

First, this study has found that the performance of Japanese firms when partially owned by foreign firms improved their performance after acquisition. Profitability was higher after investment than before, after controlling for industry effect, while the sales growth did not change significantly. This suggests that foreign shareholders are less concerned with sales growth rate but rather attempt to improve profitability when they partially acquire a Japanese firm. In addition, several financial indicators were examined to see how foreign shareholders seek to improve performance of Japanese firms, yet only a reduction in the net interest cost-sales ratio was statistically validated, suggesting that foreign firms may try to mitigate Japanese firms' dependence on debt.

Second, we examined the conditions under which Japanese firms, partially owned by foreign firms, tend to improve their profitability. A foreign firm's ownership share of a Japanese firm, and the number of foreigners who sit on the board of the Japanese firm had a positive association with improvement in profitability, while the size of the Japanese firm had a negative association with improvement in profitability. These results indicate that strong commitment of foreign firms helps Japanese firms to improve their profitability, and large Japanese firms are resistant to change by foreign shareholders.

This study has several limitations. First, the sample is quite small since there are few cases of foreign firms' partial acquisition of established Japanese firms. However, partial acquisition by foreign firms has recently shown an increasing trend, so we expect to expand the sample in the future.

Secondly, the full range of changes that foreign shareholders can instigate in Japanese firms and the conditions in which change can occur have not yet been fully explored. Foreign shareholders, for example, may encourage changes to existing organizational processes such as methods of decision making and communication within Japanese firms that ultimately improve performance. Further, the characteristics and competencies of foreign firms might exert influences which cause change in partially acquired Japanese firms. These are future agendas for research.

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