Activist investors in Japan

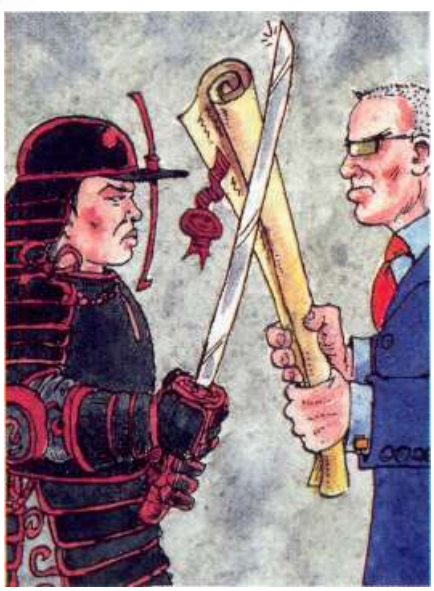
Samurai v shareholders

Japan's establishment continues to rebuff foreign activist investors

"TO BE blunt," explained Takao Kitabata, the vice-minister of Japan's powerful Ministry of Economy, Trade and Industry (METI), "shareholders in general do not have the ability to run a company. They are fickle and irresponsible. They only take on a limited responsibility, but they greedily demand high dividend payments." Mr Kitabata's remarks at a seminar on January 24th do not represent the official government line, but they encapsulate Japanese attitudes towards activist investors, almost all of whom are foreign. His remarks were aimed at Steel Partners, an American investment fund that dared to question the management of Sapporo, a beermaker in which it holds a 19% stake. On February 13th Steel sent Sapporo yet another letter calling for it to consolidate its beer business and redevelop its real-estate holdings—a plan Sapporo has rejected.

The spat is only one of many rumbling disputes between Japanese companies and foreign activist investors. Steel also demanded that Aderans, a wigmaker in which it owns a 24% stake, should replace its management. Even though Aderans' share price has fallen by some 50% in the past two years, it insists on holding on to lossmaking non-core assets, such as a golf course, and shareholdings in other firms. Steel has also demanded that Noritz, a maker of water-heaters in which it has a 20% stake, should replace its management and buy back shares. The firm had an average return on equity over the past decade of just 2.3% and has missed its revenue targets in six of the past seven years.

Steel and other activist funds may have become more assertive lately because of the sharp fall in the Tokyo stockmarket.



They started buying big stakes in Japanese firms in 2004 in response to policy reforms designed to revive the country's businesses. Foreigners now own almost 30% of Japanese shares and account for 60-70% of trading activity. But Japan's Nikkei index has fallen by around 25% since last July, so activists are now holding paper losses in some firms.

There is plenty of scope for Japanese firms to pull their socks up and improve returns, as the activists demand. But Japanese businessmen and politicians fear that the activists are short-term investors keen to strip firms of their cash. The conflict highlights a fundamental divide: companies in Japan are social institutions with a duty to provide stable employment and consider the needs of employees and the community at large, not just shareholders.

As the brashest of the activist funds, Steel has ruffled the most feathers. It became notorious when it tried to take over Bull-Dog Sauce, a condiment-maker, last year but was slapped down by the Supreme Court. Other activists favour more subtle methods. A good example is Perry Capital, another American fund. This month it asked NEC Electronics, a semiconductor firm in which it holds a 6% stake, to disclose the margins on its mobile-phone chip business. Perry suspects that the company is selling chips to its parent at a preferentially low price, to the detriment of minority shareholders.

The biggest showdown between the activists and the establishment is at J-Power, the former state-run energy firm, which was privatised in 2004. The Children's Investment Fund (TCI), a British fund, which owns 9.9% of the firm, has been politely but firmly lobbying j-Power to appoint two TCI representatives to its board, improve margins and unwind cross-shareholdings with other firms. Having been rebuffed, TCI now wants to double its bet. In January it asked for permission to increase its stake to 20% (any holding above 10% requires government approval). John Ho, the head of TCI's Asian operations, says the deal is a test of the integrity of Japan's reform agenda. And it would be, except that Mr Ho has chosen a remarkably hard case. Japan, lacking natural resources, is worried about energy security and is reluctant to hand more control over its power infrastructure to foreign investors.

The activist funds are not expecting their latest moves to produce immediate results: their broader plan is to set out their positions and rally support in advance of the general shareholder meetings that will take place in June. In particular, the activists hope that domestic investors will also start to press for better performance and higher returns. Much as managers may wish otherwise, as they brush aside their demands, the foreigners show no sign of selling up and going home. ■

Fonte: The Economist, v. 386, n. 8567, p. 75, 16 Feb. 2008.