Cases on International Business and Finance in Japanese Corporations

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Tokyo Disneyland was the result of a licensing agreement between Walt Disney (WD) of the US and Oriental Land Corporation (OL) of Japan. The agreement stated that WD would receive a licence fee of 7% of sales in exchange for WD providing OL its managerial and technological know-how, and assuming small risks in the venture. When WD proposed a second project with OL, OL's senior executives tried to find a way to make WD a risk-taking partner through investment in the business as a precondition to venturing into the project. To prepare for the negotiations, OL's management asked the finance team to calculate the project's net present value as seen from WD's standpoint using two methods, i.e, using the existing licensing method and using a joint venture method in which WD would share appropriate risks.

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In 1997, Japan's Oriental Land Corporation and the Walt Disney Company, its licenser for Tokyo Disneyland, had intense discussions about the possibility of building an additional theme park called Tokyo DisneySea Park. The difference in the economic and political assessment of the project between the American and Japanese firm was the root cause of disagreement. Japan and USA use significantly different capital budgeting techniques. The difference in decision making between Japanese and American firms also reflects the difference in corporate governance techniques between the two countries. For example, the principles of discounted cash flow, such as the new present value (NPV) and the internal rate of return (IRR), are widely used outside the realm of Japanese corporate finance. Although familiar with these tools, Japanese executives rarely use them and often consider them invalid tools for the decision-making process. Instead, Japanese corporations have come to rely on the average accounting return method for their financial analyses. The reason behind Japanese businesses rejecting NPV and IRR lies in Japan's socio-economic conventions and the nation's history.

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Sumio Abekawa, Daiwa bank's president, received a letter on July 18, 1995 from Toshihide Iguchi, vice-president of the bank's New York branch. In that letter, Iguchi confessed to losing about US$1.1 billion (approximately ¥123 billion) by selling the bank's securities in order to cover up the loss from his unauthorized trading of US Treasury Bonds over 11 years. The senior management at the bank reported the loss two months later on September 18 to the Federal Reserve Bank of New York and the New York State Banking Department. The bank directors faced a number of challenging questions: Had the bank complied with the reporting requirements? What would be the potential liability of the directors? Would the Japanese bank directors be held liable for violating the law of a foreign country? How could the Japanese Ministry of Finance help?

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This case raises many basic legal and economic issues regarding directors' responsibilities for the activities of their employees, which were not discussed in the main case, "A Rogue Trader at Daiwa Bank: Management Responsibility under Different Jurisprudential Systems, Practices and Cultures." According to an official at Japan's Ministry of Finance, the individuals involved in this case may not have directly contributed to the incident at hand as they were not only trustworthy but also very capable professionals. Could they be held responsible for responsibilities delegated to others? Irrespective of this fact, were they liable and responsible for this situation? What about the bank's responsibility as an institution? The additional questions were: (1) Was there any non-feasance regarding duties in establishing an internal control system? (2) Could the directors claim principle of trusting right? (3) Was Daiwa bank also responsible under the principle of *respondeat superior?*

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In February 2005, the top management of Fuji Television Network, Inc. (Fuji TV), one of Japan's leading media conglomerates, was informed by its main brokerage that a small IT services firm, Livedoor Co. (Livedoor), had succeeded in buying 35% of the shares in Nippon Broadcasting System Inc. (NBS), of which Fuji TV owned 12.39% and which it was in the process of acquiring through a takeover bid, to make NBS its subsidiary. What made the issue even more complicated was that NBS's main asset was its 22.5% stake in Fuji TV. The news that a relatively unknown company had managed to buy 35% of NBS's shares thus came as a great shock to the top management of Fuji TV, which had to study and determine effective tactics to counter Livedoor's planned acquisition of NBS. They immediately instructed legal counselors to conduct a study on what would be the most effective and legal actions Fuji TV could undertake against Livedoor. At the same time, they asked the planning department to calculate the corporate value of NBS using both American and Japanese methods. This involved forming judgments about the price Fuji TV should be prepared to pay if it went through with acquiring NBS completely. The case addresses issues of strategic fit between the bidder and the target, target performance, valuation, financing decisions, and whether and how the target's anti-takeover moves might affect outcomes in the battle for corporate control.

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Internet service firm Livedoor allegedly took advantage of loopholes in the securities trading laws to swell the amount of assets held by the firm and its president, Takafumi Horie ("Horie"), who led the

Livedoor group. Livedoor was established in April 1996 with ¥6 million in capital. It made its stock market debut in April 2000, with a stock market value of ¥57.2 billion. Its market capitalisation surged to ¥830 billion in December 2005, a 15-fold spike, caused by a series of highly tactical moves intended to boost the stock prices of the parent and group firms. Livedoor's strategy essentially focused on how to attract speculative investments from individual investors, largely ignoring institutional players. A 100-for-1 stock split in December 2003 sent the price of Livedoor's shares soaring to the ¥18,000 mark at once, although the ex-split price should theoretically have been just ¥2,220. Livedoor's operations turned out to be a kind of "money game" under the guise of efforts to challenge the establishment. Where did Livedoor deviate from the path of fair business, and what kind of illegality was involved in its activities? Shedding light on these questions should help both companies and investors make more constructive use of the securities and capital markets.

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A big factor behind the looming threat of hostile takeovers in Japan was the rapid dissolution of cross-shareholdings, which began in the 1990s, between creditor banks and corporate borrowers in particular. At the same time, foreign ownership of Japanese companies, which used to account for only a small percent of all outstanding shares, had now risen to approximately 20%. The proportion of free-floating shares had thus risen significantly. This also meant that buying out a company through a takeover bid (TOB) in Japan had become far easier. Recognizing the trend, and driven by the fear of Japanese companies being swallowed up by foreign investors, Hidemaru Yamada, president of Nireco Corp. (Nireco) — a high-tech measuring-device manufacturer — thought that his company needed to introduce a "poison pill" defence to counter possible hostile TOBs. With this thought, Yamada diverged from Japan's traditional way of thinking, which assumed that hostile takeovers had little chance of success in Japan. Nireco assessed the situation, taking into account Japan's institutional infrastructure, its law and its economic conditions. In March 2005, Nireco announced what it called a "security plan," which included an issue of subscription warrants to existing shareholders in the event of an unfriendly takeover bid.

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Ina Food Industry Co. Ltd (Ina Foods) was led by Hiroshi Tsukakoshi, Ina Food's 68-year-old chairman, who had been with the company through an incredible 48 years of continuous revenue and profit growth. The company was a leading manufacturer of powdered agar, a traditional gelatine product derived from seaweed. Tsukakoshi's cautionary attitude about quick growth was quite unique in current times when return on investment and total market value were considered key management indices. His belief was that if management were not preoccupied purely with revenue, and focused instead on establishing steady growth, the company would continue to exist for a long time. This would, in turn, make happier everybody who was directly or indirectly associated with the company. He believed that his role as president was to make employees happy at work. In the summer of 2006, he felt he had done a good job so far. The business had prospered and did not pose any urgent problems. But he also felt that he should not simply sit back and savor his success. There were tremendous growth opportunities and he knew operations had to be improved before those opportunities could be targeted. He had been thinking that real joy came from change and from going to the next level. His long-time belief had been that no company could get to the future by standing still.

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On Monday, April 24, 2006, the US dollar fell to a new three-month low against the yen to ¥114.30 = US$1, carrying over its weakness from Friday's trading in New York where it fell more than ¥2 (1.75%). Teruhide Osawa, president of OSG Corporation, Japan (OSG), a multinational cutting-tool producer, was following the foreign exchange market on his computer screen that Monday. Faced with big fluctuations in the yen–dollar exchange rate, he summoned the manager of the Support Centre Finance Group, Koji Sonobe. He asked Sonobe to analyze and report on how OSG's exposure to foreign currency transactions was currently being measured and how it could be managed in the future. He asked the manager specifically how the company was currently hedging its foreign currency exposures. The board's consensus was that the amount of currency risk exposure that should remain covered depended on the management's philosophy and decision. OSG's policy in the past did not intend to hedge transaction exposure perfectly and intended to leave it partially open to the market. The board would need to decide how much hedging was required as a policy.

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The policy board of the Bank of Japan (BOJ) convened for a two-day meeting starting March 8, 2006. It was expected that the board would decide to end its five-year, extremely loose monetary policy, which was designed to combat persistent deflation, and to set forth the quantitative easing approach. A decision to end the policy meant Japan would return to a normal monetary stance, targeting interest rates after five years of pursuing an unorthodox policy. The BOJ's decision was not easy. Although the law established the BOJ's independence, there was considerable opposition from the government, including Prime Minister Koizumi, to an early end to the quantitative monetary easing approach. Politicians were concerned that a "premature" monetary policy change could hamper the economic recovery from deflation. Because no major central bank had ever had such a loose monetary policy, no one knew for sure how to end it smoothly. In the end, the BOJ did as expected and lifted its quantitative easing policy, replacing it with a more standard inflation targeting policy. The bank now had to avoid sending shock waves through the country's recovering economy and through world markets, to which end the BOJ drew up a set of measures aimed at averting possible market turmoil.

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Preface

> Now Japan continues to drive change. We've learned much over the past years from companies in Japan. The best practices that we've learned on how to develop new products or how to work better in teams, many of those have come from Japanese companies.[1]
>
> — Jeffrey R. Immelt, chairman and CEO, General Electric Company, US

Japan is a country that is extremely difficult for outsiders to understand. Language plays the most basic barrier to understanding the culture: the only language used to communicate among inhabitants is Japanese; English is used to a limited degree for education and in daily life. Moreover, Japanese people are extremely cautious in disclosing their thoughts to outsiders. The basis of this attitude lies in the traditional character of the Japanese people, which is expressed in various mottos and proverbs, such as, "Silence is golden" and "Speaking less makes one look more graceful." Corporations are no exception and are run essentially on the same principles.

Japan has the second largest gross national product in the world. It exports an enormous number of excellent quality products, such as automobiles, home appliances, and electronic components that are closely integrated into the daily lives of people the world over. Thus, corporations and consumers around the world are interested in better understanding Japan's economy, how its corporations are run, and how decisions about its products are made.

However, case studies of Japanese corporations written in English are not readily available. There are two reasons behind this:

1. It is partly due to the attitudes of Japanese corporations. They do not wish to have their case studies published unless authored by someone with whom they have a close relationship and whom they can trust.
2. While there are quite a few foreign scholars who claim to be well versed on Japanese matters, a very limited number are capable of communicating in Japanese, and so their information is limited to secondhand sources, i.e., articles and books already written in English. This language deficiency makes it difficult for foreign scholars to write about the Japanese economy and corporations and, similarly, difficult for Japanese scholars to write case studies in English because of their limited English language abilities.

Meanwhile, the demand for cases written about Japanese corporations as teaching materials is accelerating. This is due to the following factors:

1. The number of business schools in the US that focus on Asia-Pacific studies is increasing. The Schidler College of Business at the University of Hawai'i at Mānoa, where I am a professor, is one of those schools. A thorough education focusing on the Asia-Pacific region requires case studies of Japanese corporations.

2. The trend shows that an increasing number of universities in the US are teaching courses about Japanese corporations and their peculiarities. The re-emergence of Japanese corporations, after experiencing a period of negative growth for 15 years, known as the "lost age," is attracting worldwide attention. The number of US corporations and students who wish to study the revival process is increasing.
3. The internationalization of the Japanese economy prompted the internationalization of Japanese education as well. Most of the leading Japanese universities are now offering MBA courses in English. Side by side, Japanese and foreign students are studying to be future international business professionals.

The lack of case studies written in English and the growing demand for such case studies are the reasons I have written this casebook. After visiting a number of corporations and meeting with their top executives, I have developed field case studies from ten corporations that I believe will provide outsiders with an understanding of the Japanese economy and Japanese corporations. These case studies contain abundant information and data that could be collected only by a Japanese person and are quite unique in that they are written from an insider's perspective. It is my hope that this casebook will be used by universities in the US, as well as in Japan and other Asian countries.

Over the years I have gained much insight into both Japanese and American issues of finance, law, and international business. I have had first-hand involvement and extensive dealings with various projects for many companies. I have had considerable access to relevant information and also have a broad-based familiarity with the issues discussed in the cases. It is because of my own long experience in the fields of international finance and business that the top management of these corporations allowed me to write their case studies.

This casebook is meant for use as a textbook in business schools for their graduate or undergraduate International Business and International Finance courses. My students of International Finance, both graduate and undergraduate, at Shidler College of Business at the University of Hawai'i at Mānoa, have given me positive feedback about these cases.

This casebook may also be useful for business people interested in Japanese corporations and the Japanese economy. Foreign companies dealing with Japanese companies may achieve smoother business transactions with a better understanding of their counterparts, and those companies intending to do business with Japanese companies will be better prepared by reading this casebook.

The cases in this book deal with international business and finance. Each case presented is a real story. These cases were selected to depict, as accurately as possible, the issues that the Japanese economy and Japanese corporations are facing today. Each case contains a fair amount of previously undisclosed information used by the executive to make actual decisions. A case study relying solely on published information will limit the skills and the insights that the reader can obtain through analytical exercises. By including this previously undisclosed information, the reader will be able to realistically place himself/herself in the shoes of the executive who made the decision.

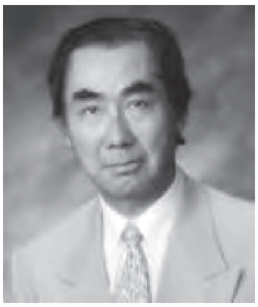
Each case presents multiple decisions that could be made, and all of those decisions might be correct. There is no way to ascertain which decision is best. Therefore, it is not a question of whether the actual decision made by the executive was correct. The reader is supposed to identify the issues first, then analyze the various problems that exist, and, finally, decide on the course of action. Necessary and sufficient information for this process is included in each case. The aim of these cases is to learn about the decision-making process and the techniques used in making an "intelligent" decision, based on the given information. It, therefore, is far more convincing, and the student can face the case more sincerely, if the case is based on an actual incident rather than a fictitious one.

Although it is not possible to completely understand the Japanese economy or Japanese corporations merely through these cases, the reader should be able to get a good grasp of them. I trust my selection will fulfill this purpose.

Mitsuru Misawa

1 Nikkei Global Management Forum (20 October 2003) "GE's Strategy for Building Corporate Value", http://www.nni.nikkei.co.jp/FR/NIKKEI/ngmf/ngmf2003/2003ngmf_sp_immelt.html.

About the Author



Dr. Mitsuru Misawa (三澤滿) received his LLB from Tokyo University Law School in 1960, his LLM from Harvard Law School in 1964, his MBA from the University of Hawai‘i as an East-West Center grantee in 1965, and his PhD in International Finance from the University of Michigan in 1967.

He is a professor of finance (International Finance and International Banking) and director of the Center for Japanese Global Investment and Finance at the University of Hawai‘i, which was established in 1997 under the sponsorship of Japanese Keidanren (Japanese Federation of Economic Organizations). He was granted tenure at the University of Hawai‘i in June 1998.

Before joining the University of Hawai‘i in August 1996, he had been with the Industrial Bank of Japan (IBJ) for 30 years, the most prestigious investment bank in Japan. It is now known as Mizuho Financial Group and is one of the world’s largest banks. His career has included assignments as an investment banker in New York and Tokyo, each for 15 years. During his time at IBJ, he served as executive vice-president of IBJ Trust Bank (NY); deputy general manager of the loan department, IBJ (Tokyo) in charge of large-scale companies such as Nissan, Sony, and Komatsu; general manager of the International Headquarter, IBJ (Tokyo); and president of IBJ Leasing (NY), as well as a member of the board of directors, IBJ Leasing (Tokyo). One of the financial arrangements he facilitated as an investment banker at IBJ was Nissan Motor’s direct investment in the manufacture of trucks and cars in Smyrna, Tennessee, in 1983. For a total financing of US$400 million, he employed “global financial engineering” techniques. Since then, these techniques have been widely used by other Japanese investors in the US.

His research has been published in numerous academic and professional journals, including the *Sloan Management Review*, *Financial Management*, *The Columbia Journal of World Business*, *Vanderbilt Journal of Transnational Law*, *The Banking Law Journal*, *Temple International and Comparative Law Journal*, *Columbia Journal of Asian Law*, *Journal of International Law and Business* of Northwestern University School of Law, *Penn State International Law Review* (Dickinson School of Law), and many cases developed at the Asia Case Research Centre of the University of Hong Kong.

Dr. Misawa consulted for a number of international institutions such as IBJ (Japan) and OSG Corporation (Japan). From 1989 to 1996, he served as the US counselor on the Keidanren’s Council for Better Corporate Citizenship. From 1993 to l996, he was a member of the visiting committee at the University of Michigan’s business school, which was composed of global business executives. Dr. Misawa was appointed Colonel of the State of Kentucky in 1984 and Arkansas Traveler in 1985 by the respective states in recognition of his achievements in soliciting Japanese investments for these states.

Dr. Misawa’s most recent book, *Current Business and Legal Issues in Japan’s Banking and Finance Industry* was published in September 2006.

Introduction

The history of Japan's economy during the 60 years after the Second World War followed a trend of internationalization. Many corporations switched from doing business domestically to doing business internationally. Because Japan is geographically small with limited natural resources, economic growth and a higher per capita income became viable only through the export of products to overseas markets. As a result, every company concentrated on producing inexpensive goods of better quality in a cost-effective manner. Internationalization was the goal for every company.

While globalization of the Japanese economy has been advancing with astounding speed, significant differences remain between the management philosophy and techniques used within Japanese companies and those used in the West. These include the significant differences in the use of capital budgeting techniques, economic and political assessment of projects, decision-making styles, and techniques of corporate governance. Furthermore, Keiretsu (interlocking shareholdings) still plays an important role in the financing of companies in Japan. Such differences have a momentous impact on decision-making processes within companies, and this book illustrates many of the key differences that exist in the realm of corporate governance and finance.

September 1985 marked a change in the progression of the Japanese economy. Six industrialized countries of the world signed the Plaza Accord, increasing the value of the yen until it reached its peak in August 1995 of ¥79/$, more than four times stronger than it had been during the fixed exchange rate period, i.e., ¥360/$. Encouraged by the yen's appreciation and super fluidity of currency in the domestic market, many Japanese companies rushed to buy real estate overseas, including the famous Plaza Hotel where the abovementioned Plaza Accord was signed. However, contrary to the expectation of Japanese industries, this strong yen introduced a long-term economic downturn and a substantial deterioration of the economy.

The export industry, which was the foundation of the Japanese economy, was hit hard by the sharp yen appreciation. The Japanese economy went into the most serious recession in 70 years since the Great Depression in 1930, during the early Showa period. Financial uncertainty and plunging prices added to the recession, creating a severe deflation spiral. Industrial companies, tormented by excess product supplies due to the lack of demand for exports, sought relief through employment adjustments, which, in turn, caused further weakening of consumption and demand. The economic growth rate was –0.7% in 1997 and –2.8% in 1998 — an unbelievable downturn for the Japanese economy that had been growing continuously since the end of the Second World War. The Nikkei average, which reached its historical peak of ¥38,916 in December 1998, started to drop. The land price index, which is based on the price in 1983 as 100, reached its peak at 488 in 1990, but dropped sharply to 144 in 1995.

The Japanese economy suffered from the aftermath of this recession for a long time. Reduction of personal and business financial assets caused severe shrinkage in personal spending and business capital investments. Banks had to cope with huge bad debts and place borrowing companies under a credit crunch in order to reduce assets. Starting in 1995, the economy entered a period that is now referred to as "the lost age," a period of compound depression in which prices dropped and the net gross national product growth rate was negative. To combat the situation, the Bank of Japan introduced a zero interest policy, i.e., a super money-easing policy, which had not been seen in the world's economic history for many years. However, its effect was dubious, to say the least. It is a common belief that, although inflation can be cured by a mix of monetary and fiscal policies, there is no cure for deflation. Consumers are wise and will not spend money today if they know that prices will drop tomorrow. Moreover, the per capita income level of the Japanese was high, and they already owned everything they wanted. There was no reason for them to spend money hastily. Japanese companies' executives used various hard and soft policies in order to survive this "lost age."

Japan is currently in an up phase. In fact, the economy has continued expanding for 58 months since February 2002, beating the 57 months of the Izanagi boom, from November 1965 to July 1970. However, the Japanese economy has a basic structural problem — the domestic economy is shrinking, and competition is becoming harsher due to the reduction and aging of the total population. Essentially, the Japanese economy has no alternative but to pursue the world market by adapting itself to globalization. Restructuring of its industrial formation through corporate buyouts and reorganization is an unavoidable task for Japanese corporations.

With the backdrop of this brief recent history of the Japanese economy, these case studies were chosen from a broad range of Japanese corporations. The ten cases, briefly described, can be classified into the following categories:

1. Internationalization. Examples of internationalization of the Japanese economy are described in two cases: a successful foreign investment in Japan — Tokyo Disneyland — and a failed Japanese investment in New York — Daiwa Bank.
2. Mergers and Acquisitions. Japanese corporations are busy dealing with mergers and acquisitions (M&As). Fuji TV versus Livedoor and Nireco are two cases that have been included to discuss hostile takeovers and countermeasures against them.
3. Small companies. When discussing the Japanese economy, small companies cannot be disregarded. The case of Ina Food is an excellent example of a thriving small company.
4. Parts manufacturing. OSG is included as a case representing the parts manufacturing industry of Japan. This company, although not fashionable, is the world's leader in the industry and sustains the Japanese economy.
5. Macro economy. The decision-making process of the Bank of Japan that steers the macro economy is described in another case. A description is given of how the breadth and depth of the decision-making process of a governing body differs from that of an individual company.

Case 1 — Tokyo Disneyland: Licensing versus Joint Venture

The biggest obstacle in establishing Tokyo Disneyland was the amount of risk that the US side (Walt Disney) was willing to take in the particular project. The issue hinged on the question of whether Walt Disney wanted to license the project or participate in a joint venture; this has always been an issue of negotiation in any project involving Japanese and US corporations. In this particular case, a sharp difference of opinion existed from each side at the start of the negotiations, probably because of the size and nature of the project, i.e., a project in the leisure industry, which is essentially part of an intangible service industry. Although the Japanese side took a strong stance, claiming that "the US side should take half of the risk," the negotiation was finally settled as a licensing deal in which Walt Disney would not take any risk at all. On first impression, this looked as if Walt Disney had won.

However, reality sometimes turns out to be stranger than fiction, and Walt Disney later realized that the deal was not as good as originally thought. Initially, Walt Disney had asked for 7% of the sales as a fee without taking any risk — purely a protection against the project's potential failure. What happened in reality was that the project turned out to be a big hit, and Walt Disney recognized that it could have acquired a far larger return if agreement had been made to assume some risk with a joint venture format. This mistake must have served as a big lesson to Walt Disney's management because it adopted the joint venture format for subsequent projects in France and Hong Kong. From this case, the reader can learn about the strategies and delicate techniques of negotiation between international parties, as well as their consequences.

Case 2 — Tokyo Disneyland and the DisneySea Park: Corporate Governance and Differences in Capital Budgeting Concepts and Methods between American and Japanese Companies

This case is based on another Tokyo Disneyland project, similar to Case 1. The difference between the Japanese and US sides, in terms of capital budgeting concepts and methods, is always one of the important themes in US-Japan negotiations concerning investments. In the negotiation of the Tokyo DisneySea Park, which is Tokyo Disneyland's second project, the two sides went head-to-head once again about cost/profit estimation. "Capital budgeting" is an extremely important calculation for estimating profitability in order to determine whether to go ahead with a project or to abandon it. In some cases, differences in the method of calculating this profitability and differences in opinion have lead to abandoning the investment, which had been based on international cooperation.

What lay at the heart of the dispute was not merely a question of which capital budgeting methodology to use, but also a fundamental difference in the purpose of a corporation. While in the US a business exists simply for its shareholders, in Japan, a business exists for all stakeholders, i.e., not only shareholders but also employees, banks, and clients. This is the root cause for the generally negative view that Japanese companies hold against the internal rate of return (IRR) and net present value (NPV) accounting techniques that are commonly used in the US as methods for calculating how to maximize shareholders' assets.

Although the discounted cash flow concept is well accepted among corporations in the US, Japanese corporations do not appreciate it for the following reasons. In the Japanese economy, which has experienced deflation for a long time, future cash flow has higher purchasing power. The short-term deposit interest rate is nearly zero in Japan, where the zero interest rate policy has been adopted for a long time. In fact, the net interest rate is negative if one deposits money in a bank after deducting various handling charges. Under this condition, Japanese corporations think it correct not to discount any future cash flow. They think that a negative number should be applied to the opportunity cost if any discount is to be executed. Thus, as a result of their calculation method, future cash has a higher value than current cash. In order to understand the difference between capital budgeting techniques in the US and Japan and to make a fair judgment on which method should be used, one must also keep in mind the differences in the macro-economic status of the corporations of the two countries.

The case shows not only the different capital budgeting techniques used in the two countries but also how to adapt in a joint project across borders. The case introduces a new method, "average cash flow return method," as a popular capital budgeting technique among Japanese banks. One of the outstanding features of Japan's business culture is that the main bank of a Japanese corporation often participates in its major decision-making processes and provides various management advice. This major difference in the investment profitability calculation techniques between the US and Japan is an extremely important issue, one that can determine whether a joint venture project is to go ahead or not. In those cases, it often happens that the main bank functions as a go-between at the Japanese company's request to provide a third technique to which both sides can agree. This case study is a perfect example for illustrating the relationship between the main bank and its client in Japan.

Case 3 – A Rogue Trader at Daiwa Bank (A): Management Responsibility under Different Jurisprudential Systems, Practices, and Cultures

Case 4 – A Rogue Trader at Daiwa Bank (B): The Board Meeting on September 25, 1995, in Japan

The events described in both cases occurred in 1995 at Daiwa Bank, which existed in New York City when the incident occurred. The aftershock of this incident continued to be felt in the Japanese financial market for more than ten years. As a result of this incident, Daiwa Bank, then one of Japan's leading banks, weakened substantially and eventually was absorbed into the newly established Resona Bank in Japan. All of this was caused by the actions of one trader at the bank's New York branch. During ten years of unauthorized dealings of US Treasury bonds, this trader lost US$1.1 billion. This dire incident came to light when the person responsible for the huge loss reported the entire matter in a letter to the president of the Bank in Japan. The news stunned the entire Japanese business community. The size of the loss and the length of time for which it stayed undiscovered were well beyond the precedent.

There was no question that the bank's manager should have been held responsible for failing to adequately supervise subordinates and for the lack of an internal monitoring mechanism, but the more significant mistake was a basic error in handling the problem after it was discovered. It was this error that decided the fate of the bank. I know of no other case that better teaches how grave the consequences of an executive's decision can be. The dealer responsible had put in more than ten years of indescribable effort to recover the loss on his own, but had finally given up. This abnormal turn of events was impossible for members of Japanese corporations to comprehend because their philosophy is that respect for the organization overrides everything else.

The executives at Daiwa Bank's head office first tried to grasp the situation before anything else, then dispatched a group of inspectors and confided everything to the Ministry of Finance, the responsible government agency, and asked for its guidance in handling the matter. However, all these activities took more time than they expected. That was management's critical mistake. The executives never realized that they were required by New York law to report this illegal action to the Federal Reserve Board within 30 days of learning about it. This inaction caused them to lose the Federal Reserve Board's trust and, hence, to lose their banking license; eventually, they had to withdraw from New York.

This incident was reported worldwide, teaching the international financial market several lessons:

1. The necessity of internationalization and the risks behind it. This incident would not have occurred if Daiwa Bank had remained a local bank in Osaka, Japan. Perhaps its attempt at being an international bank exceeded its human resource capabilities. The lesson is: internationalization should not be an automatic choice for growth.
2. The requirement for Daiwa Bank to construct an operating system suited for its international location. If it wanted to operate in New York, it should have paid more attention to the proverb "When in Rome, do as the Romans do." It tried to operate the way it operated in Japan. In the Japanese corporate environment, a strong sense of trust exists among staff members because of Japan's system of lifetime employment. This system, imported to the New York branch, may be the reason why the offender, a locally hired person, was blindly trusted by his supervisors, consequently, allowing the illegal act to be hidden for as long as ten years.
3. The need to be fully aware of differences in culture and laws. For example, disclosure responsibility differs between the US and Japan. According to the US Securities and Exchange Law, it is management's responsibility to disclose any major incident that can affect the stock price as soon as it becomes aware of the incident. Under the guidelines of the Commercial Law of Japan, however, management is required to be extremely careful in confirming the accuracy of any incidents before disclosure, considering possible grave consequences. In other words, management is allowed to take ample time to investigate the incident. There is, however, no excuse for ignorance of the law on the part of management.

A derivative lawsuit was brought by shareholders against Daiwa Bank's 32 managers, alleging failure of management responsibility and asking for damages in the amount of US$1.1 billion. Many Japanese managers were amazed by this enormous amount and reacted by rejecting internationalization, afraid that the trade-off was too large. The Keidanren (Japan Federation of Economic Organizations) reviewed the shareholders' litigation system triggered by this case and succeeded in reducing the responsibilities of the members of the board of directors by the enactment of the revised Commerce Law in December 2001. As a consequence, the experience from this incident put the breaks on internationalization.

Case 5 – Hostile Takeover Battle in Japan: Fuji TV versus Livedoor for NBS

Case 6 – Livedoor: The Rise and Fall of a Market Maverick

These two case studies are about a hostile takeover that occurred in Japan in 2005. Various US economic systems were introduced into Japan after the end of the Second World War. These included the Securities Exchange Law and corporate takeovers by tender offers specified by that law. Although there have been several successful examples of corporate takeovers, this system has never really been popular in Japan.

The idea of corporate M&As seems outlandish to the Japanese mind because its economy is based on lifetime employment and seniority, and appreciating and honoring the harmony of the society. However, things have started to change. Many Japanese business people have come to realize that M&A is an unavoidable path in order for the Japanese economy to assure sustainable corporate growth, even in a low growth period.

One young man, Takafumi Horie, quickly sensed this change in the wind. Horie was nicknamed "Horiemon" after a comic book character and quickly became a sort of idol for young people. He started with nothing in 1969, but the startup company he created, Livedoor, became a leading company in the IT industry within a few years. One technique he used to make his company grow was splitting one stock into 100 new stocks, which, although not illegal, was highly irregular in the traditional corporate world of Japan. In order to keep expanding his company, the only viable way left to him was buying existing companies. Believing that the IT industry could grow further by merging with the TV news/media industry, he targeted Fuji TV, a leading media company. Fuji TV and its subsidiary, Nippon Broadcasting System (NBS), owned each other's shares. Therefore, since NBS owned 22.5% of Fuji TV's shares, and shares of NBS were also traded on the stock market, Horie thought he could automatically control Fuji TV if he could acquire NBS through a takeover bid.

On detecting Livedoor's scheme, Fuji TV embarked on a takeover bid of NBS in order to make it a 50% subsidiary by January 2005; at that point, it owned only 12.39% of the NBS shares. To counter this move, Livedoor acquired a 30% stake in NBS shares through an unexpected attack using off-market trading. From then on, Livedoor and Fuji TV went to war using all kinds of strategies, including a court battle, to take over NBS.

The battle between these two companies became a symbol of a new age in corporate Japan in the following two ways:

1. The battle was being fought between a solid establishment in the Japanese business circle, Fuji TV, and a venture company, Livedoor, a comparative fledgling whose history went back no more than ten years. The president of Fuji TV, Hisashi Hieda, characterized his opponent's behavior by saying it was "like stepping onto another person's tatami floor with shoes on."[1] The president of Livedoor, Takafumi Horie, bluntly countered by saying, "if you've got money, there's nothing you cannot do."[2] As a result of this incident, polemicists of the Japanese financial world sternly discussed the question: What should be the ethical rule for corporations in the new era?
2. Livedoor obtained the US$765 million required for the acquisition through Lehman Brothers, a leading US investment bank, using moving strike convertible bonds

(MSCBs), a technique rather new to Japan. The Japanese market considered it an attack of American culture and values on Japan's traditional corporations. This elevated its sense of vigilance against acquisitions of Japanese corporations by US giant multinationals that are assumed to exist in the background.

This acquisition drama attracted the attention of the general public who thought it closely related to their own daily life. Unfortunately, this acquisition came to an end as Takafumi Horie was arrested for allegedly violating the Securities Exchange Law. The general public saw the harsh rise and fall of IT industry companies first hand through this incident.

Japanese companies have come to a unanimous conclusion that corporate acquisitions are a reality now in Japanese society and that US multinationals have to be watched most carefully. Frequent discussion among Japanese executives was: What is the corporate value? As the Japanese business world became acclimatized to the idea that a hostile takeover may be beneficial if it increased the corporate value, Japanese corporate executives were stunned, realizing how vulnerable their positions really were. They started seriously examining defenses that could be used against corporate acquisitions.

Case 7 — Nireco Japan: Introduction of the Poison Pill

Nireco was the first Japanese company to officially adopt a defensive plan against corporate acquisition. The argument between the company and its shareholders as to the appropriateness of the plan developed into a court battle. The court determined that the buyout prevention plan interfered with the selling of shares and that its implementation would act against the interest of shareholders. Therefore, the takeover prevention plan must not be excessive and must be appropriate. Since then, this has become the consensus of Japan's business world.

Although our attention tends to be distracted by who is the winner or loser in a hostile takeover, the key point is whether the shareholders, who hold the right to decide, are given an opportunity to make a judgment, as well as sufficient information on which to base their judgment. For this, management must make sure that the shareholders' rights have not been encroached upon. Parallel to this, a trend has begun of publicly traded companies de-listing in fear of a takeover by an overseas multinational. However, to be listed or not listed is a big question that should not be discussed from the viewpoint of a takeover prevention plan alone.

Case 8 — Ina Food Industry: A New Management Philosophy for Japanese Businesses

This case study describes a unique, relatively small company that has always sought moderate growth despite its being a highly profitable company. Because of this approach, it has never needed to obtain large funds by being listed on the stock market. While most firms tend to operate in major cities such as Tokyo, Osaka, and Nagoya, this company has always been located in Ina City, Nagano Prefecture, and focused on the manufacturing and marketing of foodstuffs. Ina Food is currently trying to venture into the biotech and pharmaceutical fields by providing products based on agar, produced from seaweed.

The company has maintained an increase in sales and profit for 48 years consecutively, through a delicately controlled growth optimization plan. This record is related to the management's belief that "the company exists for the society and the employees"[3] and makes it a top priority to return its profits to those two parties. While we tend to look only at the glamorous successes of large corporations such as Toyota, Sony, and Matsushita (Panasonic) when talking about Japanese companies, we should not forget that these minor and unglamorous companies support the national economy. It is extremely important to analyze the performances of these small and medium-sized enterprises to understand the future of the Japanese economy.

For sometime, people have talked about the manufacturing of goods as the key strength of the Japanese economy. The products of Ina Food are of superior quality, as are many other Japanese products. The best proof of that is the Japanese car industry, which maintains an awesome share in the world market. When a group of US automobile delegates visited a Japanese automobile component manufacturer, one of the delegates asked after the plant tour: "What is the product defect ratio here?" The expected answer was 1% to 2%, which is reasonable for even a top-notch plant that produces some faulty products from time to time. The Japanese plant manager flatly answered, "It is 0%," to the amazement of the visitors. This is a true anecdote that describes the quality level of Japanese products.

Case 9 — OSG Corporation: Hedging Transaction Exposure

OSG is the world's top manufacturer of cutting tools that are used for manufacturing fastening devices, i.e., male and female threaded components such as bolts and nuts, which are indispensable basic components of all industrial products. In the course of its growth, from a leading Japanese company to a leading world company, OSG was prey to a large amount of transaction exposure in terms of accounts receivables and payables. The value of the yen versus the value of foreign currencies moved radically under the floating currency market, so the risk due to the transaction exposure reached a level that could not be overlooked by top management.

Until recently, it has been the general understanding among Japanese corporations that the foreign exchange risk stays within a reasonable level because the gain and loss stays within a reasonable range. This is because of the netting principle, which explains gains and losses as offsetting each other in either a yen appreciation or depreciation stage. However, the overwhelming attitude now among leading corporations in Japan is to hedge the risk at the point of transaction. This is based on the view that it is preferable to fix every earning status accurately in its infant stage and not leave it exposed to market movements. Driving this new trend is the corporate governance concept of protecting shareholders' interests by protecting, as much as possible, the corporation's profit and loss from risk.

OSG's top executives' policy was to decide whether to hedge against the foreign exchange risk and to what degree, that is, proportionate hedging. They were to decide on this at the board of directors' meeting and were to give specific instructions to appropriate departments, rather than leave them to the operating departments for decision. The number of Japanese corporations cognizant of such market risks is increasing. Through this case, the reader can learn about the prevailing status of the use of finance technology in management among Japanese corporations.

Case 10 — Bank of Japan's Meeting in March 2006: An End to the Quantitative Easing Policy?

The last case is about the Bank of Japan, which is in charge of Japan's monetary policy. The Bank of Japan is also a corporation whose stocks are traded on the stock market. What differentiates it from other corporations is that its decisions control the macro economy of Japan and substantially affect the international markets as well. Therefore, its decisions must be made with ample prudence and strict decisiveness. Since its decisions also will be judged in retrospect, the responsibility of the decision maker is great.

A historical decision that terminated the ultra-easy monetary policy that had existed since March 2001 was made at the Bank of Japan's policy meeting on March 8, 2006. The decision was made on a judgment about whether the increase in the consumer price index was a sign of permanent improvement, a departure from the deflation that existed for so long, or whether it was just a temporary improvement. The government has always been cautious in changing the easy monetary policy because it is concerned about the economy. Although the Bank of Japan Law guarantees the independence of the Bank of Japan from the government, it also asks for cooperation between the two parties so that the Bank of Japan cannot totally disregard the government's wishes.

There was concern about the decision's effect on the international market. If the Japanese interest rate were raised, yen that had been moving out of Japan because of its extremely low interest rate would return. This would trigger the selling of US government bonds, which would, in turn, push up the long-term US interest rate and affect the US economy. The relative selling and buying of US dollars versus Japanese yen would cause the yen to appreciate. The yen's appreciation would, in turn, reduce the profits of Japanese exporting industries. Contemplating this chain of events must have frustrated the decision maker at the Bank of Japan, since this decision might have triggered a world recession.

The reader is reminded that all decisions eventually are made by human beings, and, therefore, it is impossible to completely eliminate the possibility of a misunderstanding of data or an error in judgment. That is why the decision maker makes every effort to arrive at a correct decision. This case also shows that the decision-making process of the Bank of Japan, which has been hidden behind a thick veil until now, is, in fact, quite democratic and no different from that of European and US banking systems.

Teaching Notes

If this casebook is to be used as course text, teaching notes have been prepared to assist course instructors. Faculty members of recognized academic institutions may apply for free access to the teaching notes at:

Asian Case Research Centre, University of Hong Kong (www.acrc.org.hk)

Multiple copies of individual cases may be ordered online at the same website or at:

Harvard Business School Publishing, Harvard University (www.hbsp.com)

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1 See press release, February 2, 2005, www.c-direct.ne.jp/japanese/uj/pdf/10104676/00030906.pdf.

2 *Nihon Keizai Shinbun,* January 22, 2006, http://markets.nikkei.co.jp/special/sp020.cfm?id=dxka034122&date=20060122. Original source: Horie, T., "Kaseguga Kachi (Money is Almighty)," *Kobunsha,* August 2004.

3 *Nihon Keizai Shinbun,* May 23–7, 2006, p. 8. Also see, Tsukakoshi, H., "Iikaisha wo Tsukurimashou (Let us Build a Good Company)," *Bunya*, 7th Edition, 2005, pp. 11–213.

1

Tokyo Disneyland:
Licensing versus Joint Venture

A theme park that materializes the "Kingdom Never Ending Dream and Magic."[1]

— Walt Disney

In 1997, the senior executives of the Japanese Oriental Land Corporation (OL), known to many as the Japanese version of Disneyland,[2] were on a roller-coaster ride. They were at once anxious to grow their existing company through a new project as well as make Walt Disney Productions (WD) a risk-taking partner through direct investment in Japan's second theme park. This was to be a precondition to participating in the new project being proposed.[3] Although the partnership between OL and WD was a prominent success story of foreign investments in Japan by a US company, the partnership (see Exhibit 1) floundered as differences between the two companies about management philosophies and decision-making techniques had created tensions, resulting in mixed feelings toward the new project. In preparation for the negotiation, the net present value (NPV) of the two potential partnership models — the existing licensing method and a joint venture

Exhibit 1 Basic Oriental Land Data (1997)

Name	Oriental Land Group	
Date of Establishment	July 11, 1960	
Paid-in Capital	US$534 million	
Sales	US$1.5 billion	
Income before Tax	US$237 million	
President	Toshio Kagami	
Directors and Officers	28	
Employees	2,493 (full-time) 6,355 (part-time)	
Address	1-1, Maihama, Urayasushi, Chiba-ken, Japan	
Main Banks	Industrial Bank of Japan Mitsui Trust Bank	
Major Shareholders	Mitsui Real Estate Corp. Keisei Electric Railway Corp.	20.48% 11.20%
Tie-up Company	Disney Enterprises Inc. (US)	

Source: Yukashoken Houkokusho (Annual Reports), Oriental Land Corp. 1996–2001.
See also www.olc.co.jp/en/company/profile/index.html (accessed June 30, 2005).

(JV) method in which WD would share some risks — were compared and evaluated. With both companies holding on to their own agenda, it was a tough job for senior executives on both sides to resolve the differences and clear the obstacles in order to arrive at a mutually beneficial agreement.

OL's Diversification Plan

Since 1983, OL had operated Tokyo Disneyland under a license (at a fee of 7%) with WD.[4] It took both companies four and a half years to arrive at the agreement. The primary reason for the delay was the ongoing negotiations for the reduction of the license fee and contract terms.[5] In the spring of 1997, 37 years after OL had been established (1960), senior executives, who until then had enjoyed the success of this stable and grounded company, began to ponder the timeliness of embarking on a new business endeavor to fuel growth and enhance OL's earning capability.

Although senior executives of OL were uneasy about the risks of initiating new ventures when the general economy was not faring well, they also recognized the need for new investments to maintain visitors' interests.[6] Their initial enthusiasm, however, was tempered by two factors: (1) the amount of investment needed would be large; and (2) the number of visitors would eventually diminish. They knew that approximately 75% of OL's customers were repeat visitors.[7] The question was whether, after two or three visits, they would come back for a fourth time. They were concerned that customers would eventually get bored with the existing attractions and facilities, resulting in a decline in the number of visitors.

OL's staff forecasted that the number of visitors in 1998 would drop by 4% compared to that in 1997 (see Exhibit 2 for actual attendance from 1983 to 1997).[8] Furthermore,

Exhibit 2 Tokyo Disneyland Attendance (1983–1997)

Year	Attendance
1983	9,933,000
1984	10,013,000
1985	10,675,000
1986	10,665,000
1987	11,975,000
1988	13,382,000
1989	14,752,000
1990	15,876,000
1991	16,139,000
1992	15,815,000
1993	16,030,000
1994	15,509,000
1995	16,986,000
1996	17,368,000
1997	16,686,000

Source: Yukashoken Houkokusho (Annual Reports), Oriental Land Corp. 1996–2001. See also www.olc.co.jp/en/company/guest/index.html (accessed June 30, 2005).

the number of shareholders had increased after the company had been listed on the Tokyo Stock Exchange in 1996, and they would expect higher stock prices and dividends. Thus, the senior executives felt a greater sense of responsibility to provide assurance of the company's future to shareholders.

In June 1988, after celebrating its fifth anniversary, OL embarked on a thorough study of the second theme park.[9] Initially, WD, the licenser, proposed construction of Disney Hollywood Magic, based on the concept of a movie studio. OL, however, was not convinced, as the Disney Hollywood Magic concept had not been used in the US Disneyland. The senior executives of OL told WD, "We would like to make up our minds after seeing it in the US."[10]

OL thought that:

> The second theme park should have a marketability independent from the Tokyo Disneyland. It should not be the second park simply to catch the guests overflowing from the Tokyo Disneyland. Unless it provides an experience entirely different from that offered by the Tokyo Disneyland, there is little meaning for building it.[11]

A meeting was held in September 1991 in Tokyo, and was attended by WD and OL's top leaders. At this meeting, OL officially announced that it had to object to the Disney Hollywood Magic idea, since OL believed that the "studio tour" concept proposed by WD was unfit for the Japanese market (the movie industry in Japan was not as popular as Hollywood was in the US) and difficult to reach profitability (it was hard to attract repeat customers).[12] The top executives of WD seemed considerably disappointed. WD's president Frank Wells lamented, "Was our effort the Myth of Sisyphus[13] after all?"[14]

After the meeting, OL had to work hard to reinstate WD's trust in the project and renew the study of the second theme park.[15] It was then that WD proposed a new venture, the DisneySea Park project,[16] which they guaranteed to backup completely.[17] The initial plan was to build seven seas in the theme park. Although some differences of opinion still existed, OL saw that the timing was good. As they had started their own study for a second theme park, and the offer was in line with their plans to increase visitors,[18] the senior executives of OL immediately instructed the planning department to conduct a feasibility study on WD's offer.

> The reason that it took as long as 10 years for the second project is because it needed a lot of work to adjust the concept between us and WD. WD wanted us to build something like an MGM studio in Florida. However, there is a difference between what Americans feel and Japanese people feel about movies. We also had a strong attachment to the theme concerning the sea. The reason was that Maihama in Chiba Prefecture, where the Tokyo Disneyland and the Tokyo DisneySea are located, is a landfill. Japan is an island country surrounded by seas. Historically speaking, cultures were brought to Japan across the seas. The Japanese have a strong love of the sea; you may call it our home.[19]
>
> — Kagami, president of OL

OL's planning department consisted of a group of corporate elites who had studied at American business schools. The specific instruction given by the senior executives to the planning department was as follows:

WD's participation in the Japanese projects has been the licensing method, in which it is to be compensated by a fixed 7% fee of the total annual revenue regardless of the profits . . . I believe the new project gives us an opportunity to propose a joint venture to WD. My idea is to issue preferred stock (annual dividend: 5%) in an amount equivalent to 20% of the total funds of US$3.4 billion required for the new project,[20] 30% of which, i.e., US$203 million, is to be purchased by WD.[21]

I want you to calculate the NPV for the next seven years for the following two cases. It is obvious that WD will want the case with a higher NPV. Your NPV calculation should be based on the assumption that the new project is added to the existing project. In any case, I would assume that WD's current participation method is very difficult to change for the time being.

Case 1 (License Method):

A 7% license fee will be paid for the entire project: the new project and the existing project.[22] This is WD's preferred method of participation. Please calculate the NPV for the period 1998–2004.

Case 2 (JV Method):

I would like to know how the NPV for the total project for the same period would be affected if WD subscribed to US$203 million of preferred stock, based on the assumption that the license method is still in place. This large sum will lower the NPV; the question is by how much. This is OL's preferred method of partnership — we don't know if WD will agree to the scheme.

Tokyo Disneyland

In April 1979, 19 years after its establishment, OL executed a license agreement with WD,[23] involving the design, construction, and operation of Tokyo Disneyland. In December 1980, the construction of Tokyo Disneyland began at Maihama District,[24] in what is now the city of Urayasu.[25] In April 1983, Tokyo Disneyland opened its doors for business. In December 1996, the company's stock was listed on the First Section of the Tokyo Stock Exchange.

When Tokyo Disneyland opened, it started with an initial investment of approximately US$1.53 billion[26] and was injected with a similar amount over the next 18 years.[27] This long-term commitment of funds resulted in the addition of new features, including Star Tours, Splash Mountain, and Winnie the Pooh.[28] As a result of these new attractions, Tokyo Disneyland boasted 17 million visitors in 1997, the world's largest visitor volume.[29] The opening of hotels nearby, directly run by OL, factored in additional contributions to revenues. Cost control measures, such as curbing personnel costs, were showing results. At the same time, however, profits were relatively low as a result of heavy depreciation, opening costs, and interest burden (see Exhibit 3).

Exhibit 3 Oriental Land's Past Financial Data as of 1997

Year	1996	1997
No. of Visitors (Thousands)	16,986	17,368
Sales Revenue	1,453.2	1,533.3
Operating Costs	1,095.0	1,125.5
(Depreciation)	87.5	93.9
Administrative Expenses	107.6	104.5
Interest Paid	10.6	8.5
Other Extraordinary Expenses	0.0169	0.56
Income before Tax	237.9	238.4
Taxes (47%)	113.4	103.6
Income after Tax	124.5	134.7
Investment	1,331.8	258.3
Fixed Assets	1,164.6	1,218.9
Total Assets (US$ Million)	1,770.2	3,011.7

Source: Yukashoken Houkokusho (Annual Reports), Oriental Land Corp. 1996–2001.
See also www.olc.co.jp/en/ir/ir.html (accessed June 30, 2005).

Walt Disney Productions

As OL's primary licenser, WD held a very small amount of OL's equity in exchange for its significant contribution of expertise and support. Initially, WD invested US$3.5 million in the project, which was only 0.42% of the total initial investment. According to the agreement, OL had to pay a license fee equivalent to 10% of the gate receipts and 5% of other sales (this averaged to about 7% of the total annual revenue).[30]

Since WD only owned a small share, the dividend payments were nominal. In addition, there were no interest payments or any principal repayments to WD, as there was no outstanding loan. Generally speaking, WD had almost no cash investment in OL, and, as a result, there was almost zero negative cash flow, with positive cash flow coming from the receipt of the license fee.

Under normal circumstances, when a Japanese manufacturing company entered into a license agreement with an overseas company, it would commonly cause negative side effects because of exports to an overseas market. In contrast, in the leisure industry, there were few or no negative side effects because products were neither imported nor exported. As a result, the new Disney project appeared to be an ideal, risk-free arrangement for WD.[31] Nevertheless, WD wished to maximize revenue from Japan through the license fees paid by OL.[32,33] It had a substantial interest in the new DisneySea Park project being planned and behaved as if it were a primary and lead investor.

The Theme Park Industry in Japan

OL had built a reputation as the unchallenged leader in the Japanese theme park industry (see Exhibit 4). In the early years, OL's annual visitor count neared 17 million, approximately

Exhibit 4 Ten Largest Theme Parks in Japan (1997) (Number of Visitors)

(Unit = 10 Thousands)

1	Tokyo Disneyland	1,730
2	Yokohama Sea Paradise	479
3	Nagashima Hot Springs	384
4	House Tempos, Nagasaki Holland Village	376
5	Aso Farm Land	349
6	Yokohama Cosmo World	335
7	Suzuka Circuit	282
8	Takarazuka Family Land	206
9	Space World	200
10	Baruke Espania	192

Source: Nikkei (Japan Electronic Journal), February 17, 2000, p. 30, www.olc.co.jp/ir/ir.html (accessed June 30, 2005).

four times more than that of their direct competitor, Yokohama Sea Paradise.[34] However, the total number of visitors had since been declining with each passing year, even though the theme park industry was at its peak in the early 1990s, ahead of all other leisure industries in Japan. According to a survey, the market size of amusement parks and leisure attractions in Japan would diminish from US$5.20 billion in 1997 to US$4.27 billion in 2000.[35]

The reasons for such decline included: (1) receding customer interest as the varying establishments began offering similar services and activities; (2) the inability to reduce the entrance fees to entice customers because of the companies' burden of recovering the high initial investment; and (3) a prolonged recession and growing deflation.

New Project: Tokyo DisneySea Park

> As long as there is an imagination, the Park will never be completed.[36]
>
> — Walt Disney

Given that economic conditions in 1997 were weak, OL had to decide whether it should undertake a project as large as the Tokyo DisneySea Park.[37] The initial investment of US$3.39 billion was a significant amount. On receiving the proposal, OL's senior executives consulted with all the parties concerned. Many questioned the undertaking as the project was a tall order in the midst of a poor economic climate. The sheer size of the project fazed all stakeholders, the management as well as many major shareholders and lenders.[38]

OL adopted a cautious stance, at first, as the project appeared too colossal, was extremely risky, and its profitability was uncertain.[39] WD believed that the Sea Park project had a high potential for success and recommended that OL aggressively increase its investment if it were determined to expand its business.[40,41] The Tokyo DisneySea Park focused on offering memorable adventures and romantic settings in its seven major theme areas: Mysterious Island's Prometheus Volcano, Indy Jones Adventure, Aquatopia Loading Zone for Port Discovery, "20,000 Leagues Under the Sea" Mysterious Island, Mystic Rhythm, Transit Steamer Line, and Disney Symphony.[42] The theme park had a total of 23 attractions and storylines, strung together through the feature show, DisneySea Symphony, with its sparkling dances of lights and water fountains topped off with wondrous fantasy effects. The planners believed that the attendance would surge if visitors perceived added value in staying at a hotel located at the theme park; the result was Tokyo DisneySea's hotel, Miracosta.[43] The Sea Park and Miracosta were to be thrown open to the public simultaneously; the synergy of the two new facilities attracting droves of visitors from all over the world.

Project Profitability

OL's planning department reported the following analysis to the senior executives: future income and expenses were estimated for up to seven years based on 1997 data, with certain financial assumptions (see Exhibit 5).

The planning department was able to project financial data for 1998–2004, based on data from 1996 and 1997 (see Exhibit 3) and the assumptions presented in Exhibit 5. Since the new project represented an expansion to the existing company, the marginal contribution of the new investment had to be projected. As it was extremely difficult to separate the expansion project from the existing company, two projections of cash flow were drafted, one with the expansion to OL and one without. The difference of the two projections would then represent the anticipated cash flow of the new project. This step-by-step process followed by the planning department is shown in Exhibits 6, 7, and 8.

Exhibit 5 Assumptions for Projection of Oriental Land's Financial Data

1. An initial capital investment in Tokyo DisneySea Park of US$3.4 billion was made in 2000.
2. The number of visitors would remain the same during the next four years and would increase by 30% in 2002 when Tokyo DisneySea Park would be opened. The number would increase by 10% in 2003 and 2004. In 1997, the average admission fee per person was US$84.70. Given the deflationary climate, admission fees would increase by 2% during the four years after 1997; by 15% in 2002 at the opening of Tokyo DisneySea Park; and by 10% in 2003. In 2004, admission fees would remain at the same rate as in 2003. If the new project were not undertaken, the number of visitors would remain the same during the seven-year period, and admission fees would increase by 2% over those seven years.*
3. Operating costs — other than depreciation (67% of the sales, 1997 data), administrative expenses (7%), and other expenses (4%) — would increase proportionately with the increase in sales. These projections would be applied irrespective of OL's decision on the investment.
4. Depreciation of the US$3.4 billion investment in 2000 would be conducted using the straight-line method over 20 years.
5. Funds borrowed as of 1997 totaled US$195 million, for which interest payments in 1997 amounted to US$8.5 million (interest rate on debt is 4.34%). It was assumed that the cost of future borrowing would be 4.34% (the same as that of 1997). It was also assumed that, for future investments, two-thirds would be financed by the internal withholding reserves and capital increases (including the issuance of preferred stocks), and one-third would be financed by borrowings. This assumption was made based on the past performance of the company.**
6. The Japanese rate of taxation was 47%.

* OL's website (Business Growth, Comparative Advantage, Management Message, etc.), www.olc.co.jp/en/ir/ir.html (accessed June 30, 2005).

** OL's website, http://olc.netir-wsp.com/FaqU,locale,en_US.html (accessed June 30, 2005).

Exhibit 6 Oriental Land's Projected Financial Data without the New Project, 1998–2004

(US$ Million)

	1997 (Actual)	1998	1999	2000	2001	2002	2003	2004
No. of Visitors (Thousands)	17,368	17,368	17,368	17,368	17,368	17,368	17,368	17,368
Admission Fee (US$)	84.7	86.4	88.2	90.0	91.7	93.5	95.4	97.3
Sales	1,533.3	1,501.1	1,531.1	1,561.7	1,592.9	1,624.7	1657.2	1,690.3
Operating Cost (Excluding Depreciation) (67% of Sales)	1,027.3	1,005.7	1,025.8	1,046.3	1,067.2	1,088.5	1,110.3	1,132.5
Depreciation	93.9	93.9	93.9	93.9	93.9	93.9	93.9	93.9
Administrative Expenses (7% of Sales)	107.3	105.1	107.2	109.3	111.5	113.7	116.0	118.3
Interest Paid	8.5	7.6	6.9	6.2	5.5	5.0	4.5	4.1
Other Expenses (4% of Sales)	61.3	60.0	62.1	62.5	63.7	65.0	66.3	67.6
Income before Tax	238.4	228.7	235.6	243.5	251.0	258.4	264.3	273.9
Taxes (47%)	112.0	107.5	111.0	114.5	118.0	121.4	124.2	128.7
Income after Tax	134.7	121.2	125.1	129.1	133.0	136.9	140.1	145.2
Fixed Assets	1,125.1	1,031.3	937.5	843.7	749.9	656.0	562.3	468.5

Note: Trial calculations based upon certain assumptions.
Source: Oriental Land's Annual Reports, www.olc.co.jp/en/ir/ir.html (accessed June 30, 2005).

Exhibit 7 Oriental Land's Projected Financial Data with the New Project, 1998–2004

(US$ Million)

	1997 (Actual)	1998	1999	2000	2001	2002	2003	2004
No. of Visitors (Thousands)	17,368	17,368	17,368	17,368	17,368	22,578	24,836	27,319
Admission Fee (US$)	84.7	86.4	88.2	90.0	91.7	105.5	110.9	116.0
Sales	1,533.3	1,501.1	1,531.1	1,561.7	1,592.9	2,381.3	2,881.3	3,169.4
Operating Cost (Excluding Depreciation) (67% of Sales)	1,027.3	1,005.7	1,025.8	1,046.3	1,067.2	1,595.5	1,930.5	2,123.5
Depreciation	93.9	93.9	93.9	263.3	263.3	263.3	263.3	263.3
Administrative Expenses (7% of Sales)	107.3	105.1	107.2	109.3	111.5	166.7	202.0	221.9
Interest Paid	8.5	7.6	6.9	55.2	49.7	46.7	43.7	40.8
Other Expenses (4% of Sales)	61.3	60.0	61.2	62.5	63.7	95.3	115.3	126.8
Income before Tax	238.4	228.7	235.6	25.1	37.4	213.9	326.9	393.2
Taxes (47%)	112.0	107.5	111.0	11.8	17.6	100.5	153.5	184.8
Income after Tax	134.7	121.2	125.1	13.3	19.8	113.4	173.2	208.4
Fixed Assets	1,125.1	1,031.3	937.5	4,232.9	3,969.7	3,536.9	3,273.7	3,010.4

Note: Trial calculations based upon certain financial assumptions.
Source: Oriental Land's Annual Reports, www.olc.co.jp/en/ir/ir.html (accessed June 30, 2005).

Exhibit 8 Income and Cash Flows from the New Project, 1998–2004

(US$ Million)

	1997 (Actual)	1998	1999	2000	2001	2002	2003	2004
				Without the Project				
Depreciation	93.9	93.9	93.9	93.9	93.9	93.9	93.9	93.9
Income	134.7	121.2	125.1	129.1	133.0	136.9	140.1	145.2
Cash Flow	228.6	215.1	219.0	223.0	226.9	230.8	234.0	239.1
				With the Project				
Depreciation	93.9	93.9	93.9	263.3	263.3	263.3	263.3	263.3
Income	134.7	121.2	125.1	13.3	19.8	133.4	173.2	208.4
Cash Flow	228.6	215.1	219.0	276.6	283.1	376.7	436.5	471.7
				The New Project				
Depreciation	0	0	0	169.4	169.4	169.4	169.4	169.4
Income	0	0	0	Δ115.8	Δ113.2	Δ23.5	33.1	63.2
Cash Flow	0	0	0	53.6	56.2	145.9	202.5	232.6
Fixed Assests				3,219.8	3,050.0	2,880.9	2,711.4	2,541.9

Note: Trial calculations based upon certain financial assumptions.
Source: Oriental Land's Annual Reports, www.olc.co.jp/en/ir/ir.html (accessed June 30, 2005).

An Opportunity

Using the above analysis, OL's planning department reported the estimated profit of the new project to the senior executives. Specifically, the new theme park would not be profitable during the first three years, but would be thereafter; and the cash flow, including amortization, would stay positive from the start. The leaders at OL were unperturbed at being in the red for the first few years as they considered it normal when dealing with such a large project. Moreover, they said that the positive cash flow from the start meant that the new project was good.

In order to determine whether the project deserved the go-ahead, they wanted to further examine the potential collaboration with WD. As a second part to the study, the planning department of OL calculated the NPV as seen from WD's standpoint for the two potential methods mentioned above: (1) to proceed with the existing licensing method; or (2) a JV method in which WD would share some of the risks. The senior executives' strategy was based on an assumption that WD would choose the option that had a higher estimated NPV. They planned to guide WD towards the JV method, allowing shared risk.

OL's senior executives realized that there was still a yawning gap between the views the two companies held about this project, one that could not be bridged easily. While WD's goal when negotiating was to maximize its right, OL desired to break free of intervention from WD and develop the project as freely as possible. Since their first venture proved to be mutually beneficial, OL wanted to execute the second project as an equal partner, i.e., with a fifty-fifty relationship. WD was not amenable to this position, perpetuating an impasse for a while.[44]

OL's senior executives believed in the Japanese philosophy of medieval times, "Know your enemy to win the war" and "Moving first wins the war." They saw an opportunity ahead and needed to make a wise first move to assure future success of the project.

Project Valuation (Licensing vs. Joint Venture)

The planning department had to prepare the calculations of NPV, based on the two scenarios as instructed by their superiors at OL. The calculations were based on certain assumptions, as shown in Exhibit 9.

Exhibit 9 Assumptions of Net Present Value Trial Calculations

1. OL pays 7% of sales as a licensing fee to WD.
2. The future ¥/US$ value over the seven-year investment period can be forecasted, based upon purchasing power parity.
   The following data was provided in January 1997:
   (1) spot = ¥118.02/US$
   (2) $\pi^{¥}$ = 0.9% p.a. (Japanese inflation rate)*
   (3) $\pi^{\$}$ = 4.56% p.a. (US inflation rate)
3. All incremental earnings to WD from the prospective investment project in Japan are collected as repatriating cash flows to WD. A foreign investor's assessment of a project's returns depends on the actual cash flows that are returned to it in its own currency. Dividends will be charged withholding tax at 15%, and license fees at 5%.
4. OL proposes issuance of preferred stocks to WD. Amount: US$203 million (6% of the total needed funds of US$3.4 billion), dividend payment: 5% p.a.
5. Assume the cash flows generated from WD use a weighted average cost of capital of 8% to discount prospective investment cash flows. Also, assume that the Japanese investment poses a variety of risks and WD additionally requires a hurdle rate of about 2%.

* Based on 1997 data, an assumption was made for future inflation rates: for Japan at 0.9% p.a. and for the US at 4.56% p.a., IMF Country Data, www.fedstats.gov/imf/ (accessed June 30, 2005).

Decision Time

After carefully examining the relevant data and analyses, the planning department finally presented the results of the study to OL's senior executives. They underwent intense discussion in order to arrive at the most viable strategic decision on how best to handle negotiations with WD. They had to get past overwhelming criticism of WD's one-sided business practice and its refusal to assume any risks by the company directors, lenders, and major shareholders.[45,46]

The board members, representing the major shareholders and banks, had differing opinions, and the senior executives of OL had to get their consent. The concerns represented by the main banks were always very important, particularly in Japan, since the banks not only provided financial support but also contributed much needed management advice (see Exhibits 10 and 11). The main bank explained that OL's profit structure had reached a level of stability and that the timing was optimal for correcting the lopsided agreement with WD. The bank also agreed that the new project was risky, not only because it required a huge investment but also because it would be difficult to succeed without WD's aggressive support and participation. The main bank further advised OL to seek capital from WD to share the risk and to arrange WD's loan guaranty with the *pari passu* clause in accordance with the investment ratio as a part of its financing conditions.[47] Another bank, which was also OL's regular business partner, warned the company to be careful about WD's final decision. OL was concerned that its competitors were working on proposals that could be put forth in the event that it forfeited the new project.[48,49]

Exhibit 10 Tokyo Disneyland Top Management (1997)

Name	Position	Age	Years of Service	Former Affiliation	Share Holdings (Thousand Shares)
Kohzo Kato	Chairman	70	13	Chiba Prefecture Office (Major Shareholder and Landlord)	65
Toshio Kagami	President	62	26	Keisei Railroad Corp. (Major Shareholder)	47
Noboru Kamizawa	Executive Vice-President	64	26	Asahi Tochi Kogyo Corp.	47
Yasuo Okuyama	Managing Director	57	33	--	24
Tetsu Nakayama	Managing Director	59	36	Japan Airline Corp.	14
Kazuo Kato	Managing Director	60	5	IBJ (Major Shareholder and Main Bank)	12
Teruo Mitsui	Managing Director	58	5	Mitsui Trust Bank (Major Shareholder and Main Bank)	12
Yu Kojima	Managing Director	60	39	Keisei Railroad Corp. (Major Shareholder)	8
Takeshi Okamura	Managing Director	65	1	National Police Agency	0
Yoshiro Fukushima	Managing Director	52	29	--	3
Fumio Tsuchiya	Managing Director	56	19	Keisei Railroad Corp. (Major Shareholder)	3
Shigeru Matsuki	Managing Director	55	22	Same	3
Seiwa Takahashi	Director and Advisor	83	35	Founder	403
Kurawo Murata	Director and Advisor	75	4	IBJ (Major Shareholder and Main Bank)	0
Junichiro Tanaka	Outside Director	66	1	President, Mitsui Real Estate Corp. (Major Shareholder)	0

Source: Yukashoken Houkoukusho (Annual Reports), Oriental Land Corp. 1996–2001, www.olc.co.jp/en/company/profile/board.html (accessed June 30, 2005).

Exhibit 11 Major Shareholders of Oriental Land (1997)

	No. of Shareholders	No. of Shares (1,000)	%
Government and Municipality	3	39,601	3.96
Banks	184	283,804	28.35
Securities Companies	42	4,665	0.46
Corporations	653	452,178	45.16
Foreigners	283	59,898	5.98
Individuals	75,617	161,073	16.09
Total	76,782	1,001,219	100.00

Source: Yukashoken Houkoukusho (Annual Report), Oriental Land Corp. 1996.

It was no secret that WD had been a real partner to OL, not simply a licenser, as seen in the quasi-joint venture in the Tokyo Disney project. Without their insightful advice and support, OL would not have achieved the success it enjoyed. On acknowledging this, the question arose as to whether it was necessary for WD to partake in the risk of the new project as well.

OL's senior executives had much to contemplate and consider. Never before had they felt such pressure as they did during that summer of 1997. They knew they had to weigh all the facts, carefully examine the data, and consider all possible angles of the deal, as it was no secret that WD would play hardball in its negotiation efforts. To address the issues, senior executives asked the planning department to conduct a sensitivity analysis, based on different projections of sales growth, cost structures, profitability ratios, and interest rate levels for both, case one and case two. Usually, Japanese companies did not rely solely on numbers and figures as final determinants for such a weighted decision. Rather, the argument that was presented had to be based on convincing financial analyses, in addition to all other relevant nonfinancial factors.

Conclusion

> We are often asked about the cause of success of this project that brought a revolution into the leisure industry in Japan. We believe that it is because it was a combination of Walt Disney's genius idea, i.e., family entertainment that makes "families and friends unite across age, sex and nationality," with the delicate service of Japanese people. It was also fueled by an economic factor: the project was synchronized with an increase in income levels and an increase in spare time for the Japanese. The late Mr. Frank Wells, WD's president, once said, "The Japanese operation is doing better than ours. There's nothing more we can teach them. Rather, we are learning from them."[50]
>
> — Takahashi, first president of OL

In 1997, the two parties engaged in intense negotiations. Both teams struggled to find ways of reaching an agreement.[51] Key points to consider in the senior executives' decision making were:

1. Should WD share the concern about the idea of joint venture and the risks involved? Given the possible negative reaction by WD, perhaps an issue should not be created. In contrast, if the issue is not put on the table, it is almost certain that everyone, including board members, major shareholders, and the main banks might raise questions about the deal not being examined from all angles.
2. What would the alternative plan be if WD, as was expected, refused the idea of a joint venture? Should OL just: (1) give up right away; or (2) negotiate tenaciously. Feeling snubbed, WD could possibly take the project to one of OL's competitors, which was a significant risk.

In the end, OL's senior executives agreed to undertake the new project, as they had done with previous projects, via the licensing mode. The board of directors supported this decision.

WD, a prestigious licensor with great know-how, and OL, a licensee with a huge plot of land having great potential, were united. The success of investments as large as ¥500 billion (US$4.2 billion) in four years in the Tokyo DisneySea Park would have been impossible if either of the factors did not exist. The two companies' relation changed from confrontational to one of indispensable partners. Our relation with Disney was originally that of a master and a servant, but it changed to one of equality as OL grew, and also with the growth of OL's capabilities and experiences, so that we were able to discuss more freely. A continuation of hard-edged negotiations changed to more agreeable discussions as we mutually grew to realize that both sides are indispensable partners to the other side. We came to have a common understanding that "disrupting negotiation is the worst kind of negotiation."[52]

— Kagami, president of OL

At a news conference held on September 4, 2001, at the opening of Tokyo DisneySea Park (Urayasu, Chiba), OL's top executive declared, "According to our plan, the initial investment of US$3.4 billion would be recovered in five to six years" (see Exhibit 12 for the stock price performance of OL during 1997–2001).[53,54,55]

WD's top executive who attended the meeting praised OL and stated that, "There is no third park plan in Japan yet, but we would work with OL if there would be one."[56,57,58]

Exhibit 12 Stock Prices (Nikkei 225 vs. Oriental Land)

Source: http://quote.yahoo.co.jp/ (accessed June 30, 2005).

For Further Discussion

For questions 1 to 4, use the work done by the planning department in the case as reference.

1. Prepare OL's pro forma future financial data (using a spreadsheet program) for the new project for the years 1998–2004. The format for the past data of the company is shown in Exhibit 3. Use the assumptions given in Exhibit 5 of the case.
2. Estimate the future exchange rate between the US dollar and the yen, using the assumptions in Exhibit 9 in the case and the formula below.

$$\frac{F}{S} = \frac{1+\pi^{¥}}{1+\pi^{\$}}$$

Where: F = Future spot rates
S = Current spot rates
$\pi^{¥}$ = Yen's inflation rate
$\pi^{\$}$ = Dollar's inflation rate

3. Prepare the Case 1 projections of the repatriation of the license fee and the incremental earnings for WD with the new expansion in 2000 (1998–2004), based on certain assumptions in Exhibit 9 and Exhibit 5 of the case, and the formula shown above.
4. Prepare the Case 2 projections of the repatriation of the license fee plus dividend, and the incremental earnings for WD with the new expansion in 2000 (1998–2004), based on certain assumptions in Exhibit 9 and Exhibit 5 of the case, and the formula shown above.
5. OL's senior executives decided to undertake this project under the Case 1 method (licensing only) in 1997 and their decision was supported by the board of directors. Why did the company decide to invest such huge amounts for the sea park in 2000 with the method they disliked?
6. In what ways do you think Tokyo DisneySea Park can sustain growth in the future?

1 OL, Tokyo DisneySea Park, www.olc.co.jp/company/resort/tokyodisneysea/index.html (accessed June 30, 2005).

2 Tokyo Disneyland, www.olc.co.jp/en/company/resort/tokyodisneyland/index.html (accessed June 30, 2005).

3 In the past, negotiations with WD were almost on the brink of disruption more than once, and appeared to be irreparable. It was the president, Takahashi, who resolved the situation each time. For Mr. Takahashi's contributions, see Kagami, T., "Umi wo Koeru Souzouryoku (Imagination Extending across Seas)," *Kodansha*, May 26, 2003, p. 50.

4 In the initial negotiation, the Japanese side requested a reduction of the license fee from 10% to 5% and required WD to bear a certain percentage of the risk, which infuriated WD so much that it interrupted the negotiations. For details, see Takahashi, M., "Watakushi no Rirekisho (My Personal History)" series, *Nikkei* (Japan Economic Journal), no. 20, July 20, 1999, p. 36. The percentage figure of the license fee for WD was not publicly disclosed by OL. The figure

could be calculated from what OL actually paid WD in the past. See details in Yukashoken Houkokusho, (Annual Reports), Oriental Land Corp. 1996–2001, www.olc.co.jp/en/company/profile/index.html (accessed June 30, 2005).

5 WD wanted 50 years while OL insisted on 20 years. In the end, they agreed on a basic term of 20 years, which was extendable five times, for five years each time, to a maximum extension of 25 years, so that the total possible term would be 45 years. The Japanese side must have thought that 45 years was too long, and that it was humiliating to accept it. For details, see Kagami, T., "Umi wo Koeru Souzouryoku (Imagination Extending across Seas)," *Kodansha*, May 26, 2003, pp. 52–3.

6 The need for a new theme park was justified by the fact that, with the opening of the Maihama Station of the Keiyo Line, the number of visitors increased tremendously, such that it would soon reach its capacity. Also, Chiba Prefecture requested the use of unused parkland. For the new investment plan, see Takahashi, M., "Watakushi no Rirekisho (My Personal History)" series, *Nikkei* (Japan Economic Journal), no. 29, July 30, 1999, p. 40.

7 For the ratio of repeat visitors in the total number of entrants, see Arima, T., "Disneyland Story," *Nikkei Business Bunko*, July 1, 2001, pp. 170–1.

8 See Takahashi, M., "Watakushi no Rirekisho (My Personal History)" series for the positive attitude of OL toward additional investments, *Nikkei* (Japan Economic Journal), no. 28, July 29, 1999, p. 40.

9 In the meanwhile, Mitsuaki Mori, who was sent from The Industrial Bank of Japan, succeeded Takahashi as the president. WD witnessed a management changeover in 1984 as well, creating a powerful team with Michael Eisner, the chairman, and Frank Wells, the president. For further details, see Kagami, T., "Umi wo Koeru Souzouryoku (Imagination Extending across Seas)," *Kodansha*, May 26, 2003, pp. 98–9.

10 Statement made by OL's president, Takahashi, to WD's president, Wells. For further details, see Kagami, T., "Umi wo Koeru Souzouryoku (Imagination Extending across Seas)," *Kodansha*, May 26, 2003, p. 98.

11 See Kagami. T., "Umi wo Koeru Souzouryoku (Imagination Extending across Seas)," *Kodansha*, May 26, 2003, p. 105.

12 There was a harsh exchange of words. For details, see Takahashi, M., "Watakushi no Rirekisho (My Personal History)" series, *Nikkei* (Japan Economic Journal), no. 29, July 30, 1999, p. 40.

13 Sisyphus was a character in Greek mythology who angered Zeus and was sentenced to roll a boulder to the top of a mountain. The minute he got to the top, it would roll back down so that he had to repeat the task forever, signifying a useless work of grand order. For details, see http://homepage.mac.com/cparada/GML/Sisyphus.html (accessed June 30, 2005).

14 Statement made by President Wells of WD. For details, see Kagami, T., "Umi wo Koeru Souzouryoku (Imagination Extending across Seas)," *Kodansha*, May 26, 2003, pp. 105–6.

15 Kagami, T., "Umi wo Koeru Souzouryoku (Imagination Extending across Seas)," *Kodansha*, May 26, 2003, p. 106.

16 Takahashi and Kagami flew to the US to meet WD on July 21, 1992. See Kagami, T., "Umi wo Koeru Souzouryoku (Imagination Extending across Seas)," *Kodansha*, May 26, 2003, pp. 110–1.

17 Takahashi, M., "Watakushi no Rirekisho (My Personal History)" series, *Nikkei* (Japan Economic Journal), no. 29, July 30, 1999, p. 40.

18 See Kagami, T., "Konna Shiawasena Shigoto wa Nai (There Is No Such Enjoyable Work as This)," from "Ningen Hakken, Watakushi no Keiei Tetsugaku (Finding Human Beings – My Management Philosophy)," *Nikkei Business Bunko*, August 1,2004, pp. 164–5.

19 Statement made by President Toshio Kagami of OL. For details, see note 18.

20 The total investment to the Tokyo DisneySea Park project reached US$ 2.8 billion. In particular, the investment made over four years in the entire Maihama District was US$ 4.2 billion. In order to collect these funds, OL endeavored to be listed on the big board (the 1st section) of the Tokyo Stock Exchange Market. The company invested all the money collected on the open market and its internal withholding reserves in the Tokyo DisneySea Park. Corporate bonds (rated as AA plus) and loans contributed to the remainder. The enormous investment was supported by a bountiful cash flow. For details, see Kagami, T., "Umi wo Koeru Souzouryoku (Imagination Extending across Seas)," *Kodansha*, May 26, 2003, pp. 148–9.

21 WD's position in the contract (that it would not take any risk and collect only the license fee) had caused a lot of commotion in Japan. The president of the Industrial Bank of Japan called this policy a "strange one" and one that was "never heard of in Japan." See Arima, T., "Disneyland Story," *Nikkei Business Bunko*, July 1, 2001, pp. 136–8.

22 WD strongly requested a 10% license fee, which OL's board members defeated. For details, see Takahashi, M., "Watakushi no Rirekisho (My Personal History)" series, *Nikkei* (Japan Economic Journal), July 1–31, 1999, no. 22, July 23, 1999, p. 40.

23 The US-Japan negotiation of bringing Disneyland to Japan took four years and five months to conclude after WD's management team first visited Japan in December 1974. Initially, OL's parent company (who owned 48% share), Mitsui Real Estate Corp., objected in particular to the agreement conditions. Despite this, OL and WD finally came to an agreement on April 30, 1979. For details, see Takahashi, M., "Watakushi no Rirekisho (My Personal History)" series, *Nikkei* (Japan Economic Journal), July 1–31, 1999, no. 25, July 26, 1999, p. 40.

24 Mr. Kawasaki, then president of Keisei Electric Railway Co., managed to obtain a large plot of land from the Chiba Prefecture government, in anticipation of revenue from hotels that could be built adjacent to the theme park. OL did not want to secure the land in advance to avoid it being lost to other developers. For details, see Takahashi, M., "Watakushi no Rirekisho (My Personal History)" series, *Nikkei* (Japan Economic Journal), July 1–31, 1999, no. 13, July 14, 1999, p. 40.

25 OL's chronology, www.olc.co.jp/en/company/history/index.html (accessed June 30, 2005).

26 US$1 = ¥118.02 in 1997.

27 OL invested US$237 million in the first five years and another US$593 million in the next five years. In other words, it made additional investments of US$847 million after the opening. For details, see Takahashi, M., "Watakushi no Rirekisho (My Personal History)" series, *Nihon Keizai Shimbun*, no. 29, July 30, 1999, p. 40.

28 For details on additional attractions, see Kagami, T., "Umi wo Koeru Souzouryoku (Imagination Extending across Seas)," *Kodansha*, May 26, 2003, pp. 72–3.

29 After seeing that the total construction cost exceeded the budgeted amount by US$678 million, president Takahashi sent a message to the staff to continue building so that the theme park would be better than the one in Los Angeles or Florida. For details, see Kagami, T., "Umi wo Koeru Souzouryoku (Imagination Extending across Seas)", *Kodansha*, May 26, 2003, p. 61.

30 WD originally demanded a 10% license fee, to which OL's parent company Mitsui Real Estate Corp. strongly objected. OL's management group requested WD to lower the royalty to 5% in accordance with the intention of Mr. Tsuboi (president of Mitsui Real Estate Corp.), which infuriated WD and caused mistrust. For details, see Takahashi, M., "Watakushi no Rirekisho (My Personal History)" series, *Nikkei* (Japan Economic Journal), July 1–31, 1999, no. 19, July 20, 1999, p. 36.

31 OL thought that 45 years was too long. OL's president Kagami believed a long-term agreement in the engineering world where technology becomes obsolete so quickly could certainly be

called an "unfair agreement." For details, see Kagami, T., "Umi wo Koeru Souzouryoku (Imagination Extending across Seas)," *Kodansha*, May 26, 2003, pp. 52–3.

32 From the very beginning in 1978, OL had been trying their best to make WD bear some risks, but their efforts were in vain. Mitsui Real Estate Corp., which was OL's parent company, held a firm position that it could guaranty the project borrowing up to 48% of its investment and not more, and that the balance should be born by the American side. For details, see Takahashi, M., "Watakushi no Rirekisho (My Personal History)" series, *Nikkei* (Japan Economic Journal), no. 23, July 24, 1999, p. 40.

33 Behind this tough contract condition was the problem of WD's management. See Arima, T., "Disneyland Story," *Nikkei Business Bunko*, July 1, 2001, pp. 146–7.

34 See Prince Hotels and Resorts, www.seaparadise.co.jp/ (accessed June 30, 2005).

35 *Nihon Keizai Shimbun* (Japan Economic Journal), February 17, 2000, p. 30.

36 OL's website on Tokyo DisneySea Park, www.olc.co.jp/en/company/resort/tokyodisneysea/index.html (accessed June 30, 2005).

37 Tokyo DisneySea Park, www.olc.co.jp/en/company/resort/tokyodisneysea/index.html (accessed June 30, 2005).

38 Mr. Kagami, OL's president, said that the biggest rationale for the name "Tokyo DisneySea" lay in its location: within a radius of 100 km, there lived over 300 million people with high disposable incomes. For details, see Kagami, T., "Challenge of Second Venture: Disney Sea," *Shukan Toyo Keizai*, May 12, 2001, pp. 52–3.

39 OL strongly resisted WD's traditional licensing fee format. OL believed it was unfair for it to pay royalties of approximately US$51 million each year, when WD did not have to take any risks and use the land for free with no financial burden. For details on the fierce exchanges between the two companies, see Takahashi, M., "Watakushi no Rirekisho (My Personal History)" series, *Nikkei* (Japan Economic Journal), no. 29, July 30, 1999, p. 40.

40 WD implemented stringent conditions for the Japanese side for the joint project in Japan, but the success in Tokyo helped WD to revive OL's royalty payments to WD and were increased to approximately US$68 million in 1988. WD made use of the income to invest in hotels in Disney World. For details, see Arima, T., "Disneyland Story," *Nikkei Business Bunko*, July 1, 2001, p. 174.

41 The majority of revenue from the theme park was generated by sales from novelty goods, foods, and beverages, which totalled US$482 million, and not from entrance fees, which totaled US$399 million. The license fee was 10% for the entrance fee and novelty goods, and only 5% on foods and beverages. As a result, WD was earning a limited profit since it charged a lower license fee in the category with higher sales. The lesson that WD learned in Tokyo Disneyland was applied to Euro Disney, where it attempted to obtain the maximum profit possible. See Arima, T., "Disneyland Story," *Nikkei Business Bunko*, July 1, 2001, pp. 172–3.

42 OL website, www.olc.co.jp/company/resort/index.html (accessed June 30, 2005).

43 Kagami, T., "Japanese People Have Imagination Abilities," "Japanese Economy Will Come Back," edited by E. Kashiwabara and N. Shima. *Askie Communications*, 2003, pp. 36–41.

44 Kagami, T., "Umi wo Koeru Souzouryoku (Imagination Extending across Seas)," *Kodansha*, May 26, 2003, p. 102.

45 OL's main banks were the Industrial Bank of Japan and Mitsui Trust Bank. The cooperative bank group approved a loan of US$551 million to OL in the interim. See Arima, T., "Disneyland Story," *Nikkei Business Bunko*, July 1, 2001, pp. 164–6.

46 From the initial negotiation, which was held in 1979, the period of the contract had been another bone of contention between WD and OL. While WD insisted on a 50-year duration, OL would not accept such a long duration. When WD offered to reduce the duration to 45

years, OL felt that this was too small a reduction. For details, see Takahashi, M., "Watakushi no Rirekisho (My Personal History)" series, *Nikkei* (Japan Economic Journal), July 1–31, 1999, no. 22, July 23, 1999, p. 40. Also see note 29.

47 See note 20.

48 OL had an initial competitor. It was Mitsubishi Estate Group, which was trying to bring Disney to the foothill of Mt. Fuji. The company offered a plot of land of 3 million tsubo (2,450 acres) that it owned at the foothill of Mt. Fuji, but it did not want to pay for the construction fee or royalty. As a result, Urayasu was chosen as the ultimate site. For details, see Takahashi, M., "Watakushi no Rirekisho (My Personal History)" series, *Nikkei* (Japan Economic Journal), July 1–31, 1999, no. 16, July 17, 1999, p. 40.

49 When WD's management team came to Japan in 1974, they met with Mitsubishi Estate Group immediately after the meeting with OL, with the obvious intention of creating a competitive atmosphere between them. The Japanese people involved did not appreciate the way WD handled the situation. See Arima, T., "Disneyland Story", *Nikkei Business Bunko*, July 1, 2001, p. 147.

50 OL's management explained why this project became a hit. For details, see Takahashi, M., "Watakushi no Rirekisho (My Personal History)" series, *Nikkei* (Japan Economic Journal), no. 30, July 31, 1999, p. 40.

51 In July 1990, OL had a business negotiation with WD on the kind of attractions that should be included in the second park. In addition to the issue of the license fee, there was a difference of opinion concerning essential issues such as success fees. OL received a letter from WD in 1992 saying that the latter wanted to shelve the planning as it was disappointed with the fact that OL could not offer any improvement in the license fee. For details, see Kagami, T., "Umi wo Koeru Souzouryoku (Imagination Extending across Seas)," *Kodansha*, May 26, 2003, p. 102.

52 See Kagami, T., "Umi wo Koeru Souzouryoku (Imagination Extending across Seas)," *Kodansha*, May 26, 2003, pp. 210–1.

53 Remark made by president Toshio Kagami at the time of the opening of Tokyo DisneySea Park on September 4, 2000. For more details, see *Nikkei* (Japan Economic Journal), November 7, 2002, p. 11.

54 Even after it was agreed that the second theme park should be Tokyo DisneySea Park, the negotiation between the two companies was never easy. For example, in February 1994, WD informed OL that they wanted to stop the creative work in the second park since there was no consensus in the negotiations on the lot adjacent to Maihama station and the hotel attached to the park. See Kagami, T., "Umi wo Koeru Souzouryoku (Imagination Extending across Seas)," *Kodansha*, May 26, 2003, p. 114.

55 The park was completed in 2001, but not without difficulties. Several contractors refused to bid for the construction work of Tokyo DisneySea Park after seeing the specifications. They claimed that it was technically too difficult. This meant that much high-tech engineering involved in the construction was hidden under the stage. See Kagami, T., "Umi wo Koeru Souzouryoku (Imagination Extending across Seas)," *Kodansha*, May 26, 2003, pp. 131–5.

56 Remark made by Mr. Michael Eisner, chairman of WD, at the opening of Tokyo DisneySea Park. For more details, see note 53, op. cit. supra.

57 The Tokyo Disneyland was recognized for its contribution to the advancement of US-Japan relations by the Japan Society of Northern California in October 2002. The management teams of both WD and OL expressed their profound joy over the recognition. See Kagami, T., "Umi wo Koeru Souzouryoku (Imagination Extending across Seas)," *Kodansha*, May 26, 2003, pp. 268–9.

58 However, Tokyo DisneySea Park is not attracting as many people as anticipated. See Komatsuda, M., "Tokyo Disneyland, Secret of Continuing Success," *Shogyokai*, p. 197.

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