Evaluation of M&A Effects in Japanese Shipping Companies : Case Study of NYK & Showa Line and OSK & Navix Line

Na Young Hwan, CHOI*· Shigeru YOSHIDA**

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Abstract

In shipping industries, M&A (Mergers and Acquisitions) has been brisk around large shipping companies since the mid to late 1990s. M&A strategy has attracted a lot of attention recently as a plan to improve profitability of shipping companies and to streamline their management, due to shipping economic depression. In this situation, it is necessary to plan strategies to evaluate properly M&A effects of shipping companies and to achieve successful M&A.

This study aims to investigate the backgrounds and purposes of M&A in Japanese shipping companies and evaluate M&A effects from long-term business performance analysis and synergy effects analysis, using EVA (Economic Value Added). The cases in the study verified the rise of market power and turnover. The companies accomplished the improvement of their financial safety and profitability through the mergers. And, the cases imply that positive synergy effects are able to be created by effective utilization of managerial resources and investing activities in post-merger.

Key Words : M&A Effects, Japanese Shipping Companies, Business Performance, Synergy Effects

* Doctor candidate, Graduate School of Maritime Science, Kobe University, Kobe, Japan Address: 5-1-1, Fukaeminamimachi, Higashi-nada, Kobe, Hyogo, 658-0022, Japan, Email : chnayoung@hotmail.com

** Professor&Doctor, Graduate School of Maritime Science, Kobe University, Kobe, Japan Address: 5-1-1, Fukaeminamimachi, Higashi-nada, Kobe, Hyogo, 658-0022, Japan, Email : syoshida@maritime.kobe-u.ac.jp

I. Introduction

M&A and strategic alliance are representative types of management strategy of shipping firms.[1] A Strategic alliance enable established carriers to continue to serve new markets with lesser capacity commitment and divert capacity to serve new markets, while they facilitate newer carriers to enter hitherto difficult to penetrate routes with the help of their partners.[2] Compared to strategic alliance, M&A has the possibility of leading to a financial risk, because it requires large purchasing expenses, and has to go through a lengthy enterprise integration process.[3] Nevertheless, M&A has a variety of merits such as reinforcement of market power, aggressive control over the general management of a target company and realization of synergy effects.[4] Thus, shipping companies have been active to use M&A as an internal growth strategy since the late 1980s.

M&A activity of the liner shipping companies has three characteristics.[5] Firstly, M&A among large shipping firms enabled global management by securing the capital resources or IT technology and management technology. Secondly, large shipping companies expanded their market powers in trunk routes through M&A and allegiance. Thirdly, because scales and internal resources of shipping companies got larger and it was possible for shipping companies to provide integrated distribution and IT services for their clients after M&A, they increased profits by attracting lots of shippers.

The Japanese shipping industry carried out extensive and large-scale M&A which was led mainly by the government from 1963 to 1964.[6] After that, M&A were conducted again two times at the end of 1980s and 1990s by shipping companies to recover low profitability resulting from severe competition, strong yen and excessive tonnage.[7] This study targets two merger cases: The “NYK (Nippon Yusen Kaisha)” and “Showa Line” in 1998 and “OSK (Osaka Shousen Mitsui Senpaku)” and “Navix Line” in 1999.

For evaluating their M&A effects, first, we analyze M&A effects by the reorganization of route composition and assess the changes of market power

1) Yin and Shanley(2008), pp.473–491.
2) Slack and Comtois(2002), pp.65–76 ; Das(2011), pp.111-128.
3) Kadar(1996), pp.81-85 ; Kim and Gil(2003), pp.47-70.
4) Kadar(1996), pp.81-85 ; Kim and Gil(2003), pp.47-70.
5) San and Woo(2003), pp.51-73 ; Lee(2005), pp.36-40 ; Choi and Yoshida(2011), pp.99-110.
6) Yoshida and Takahashi(2002).
7) Yoshida and Takahashi(2002) ; Kihara(2010).