

## Compliance will become important part of Japan Inc's strategy in India: Tadashi Kageyama

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Tadashi Kageyama, senior managing director and head of Kroll's Asia operations and Japan, offers risk consulting and investigative services to many Japanese clients. In an interaction with Sudipto Dey Kageyama shares Kroll's experience in advising Japanese companies in their investment in India. Excerpts:

**Do you find an extra bit of concern from Japanese investors when it comes to issues around compliance and corporate governance in India?**

Yes, Japanese investors are very concerned about compliance and governance. This would be among their top concerns of what we describe as fraud and compliance risks. The other concerns are about bribery and corruption, and the regulatory risks, which include issues around taxation and changes in regulations. Many Japanese businesses find it hard to understand India's regulatory landscape.

Japanese companies generally enter a market with a local partner. However, what many Japanese companies have failed to do well is to manage local joint ventures. They typically let local partners run the business, and they kind of stay behind in the back seat - until they discover something is wrong. Or, they try to implement Japan's model of managing the business - and they end up with a huge gap at the local management level and the Tokyo management level.

**Is this problem specific to India?**

This problem is more in India, and much less in China. Probability of facing fraud and corruption risks are higher in India. Even when they register a licence here, they are faced with the prospect of paying-off some officials. That is no longer happening in markets like China, where anti-corruption is part of country's national agenda. I think India, too, will eventually go that way.

**Is that why Japanese foreign direct investment (FDI) investments have come down over the last few years?**

We are getting more work from Japanese companies in India. In the last one year, we have seen the work that we do for Japanese clients have actually doubled. Even seasoned investors continue to face challenges with post-investment investigations - whether it is advice on labour issue, fraud or corruption, or dispute with joint venture partners. We are in the process of doubling our current head count of 20 full-time consultants in India. But I am not surprised that Japanese investments have stalled compared to FDI flows to other south Asian countries. Lot of my clients have said that in India's previous government many decisions were put on hold. So, they said: "We would like to hold our investments until there is a new government." This is also similar to what happened in Indonesia, where we saw 40 per cent drops in transaction before the Presidential elections. Also,

investment is about timing. The China market is getting difficult for Japanese companies to make money. It will be interesting to see the statistics (for India) going forward. There is no clear strategic shift, but when the Docomo decision (to withdraw from India was made) many Japanese businesses said: "Maybe we should be more careful before committing more capital to India." They would have also looked at some of the tax policies, which were adverse to foreign businesses.

**Are more Japanese companies going for pre-investment due diligence given their concerns?**

Yes, there is a positive trend, but not as fast as we would like to see. I think there is a culture issue. Many Japanese companies are not comfortable investigating a potential business partner. But that is changing. Compliance is becoming an important part of company's values and assets. Before, it was all about top line, market share, profits. Today many Japanese investors view company valuation from point of view of compliance - of being a good corporate citizen. Going forward, compliance will become an important part of Japan Inc's India strategy.

Japanese companies now know that they have to do their homework well. Many Japanese companies are also concerned that if you mismanage the business, it could cause many internal controls and corporate governance issues.