Cover Story

Cowboy meets the Samurai: How Houston has become a destination for Japanese businesses

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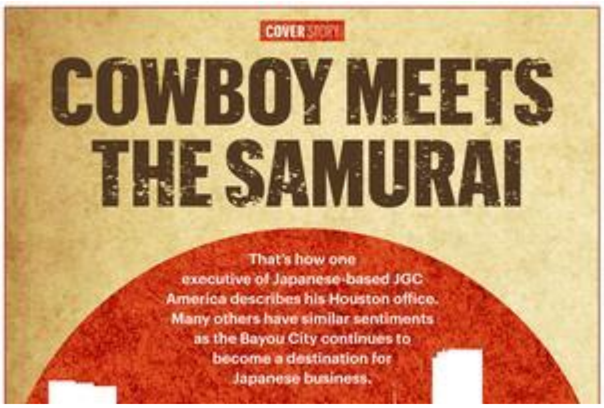

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When Eiki Furuta, president of JGC America, stepped off a plane in Houston 25 years ago, he didn't feel the same sense of uneasiness that typically happens when traveling to unfamiliar places. With its diverse population and tight business community, the Bayou City offers a sense of familiarity and welcome that made the transition of his business from Japan easier, Furuta said. Japan has become a significant financial force in Houston. The Asian island nation represents the second-largest foreign investment market for Houston, outpaced only by the United Kingdom. Japanese businesses expand into nearly every crevice of the city's economy, including residential real estate, retail, finance and insurance, and of course, manufacturing.

Of the 132 Japanese businesses here, one in three are in manufacturing, according to the Greater Houston Partnership.

"The big trend when you see the investments in Houston — manufacturing," said Bob Pertierra, GHP's senior vice president and chief economic development officer. "One-third of the firms that are operating here in Houston are in the manufacturing space, which fits well with Houston's space as a manufacturing center."

Japanese companies that want a stake in the ground in Houston do so for a number of reasons. First and foremost, it allows them to export goods to the rest of the United States, as well as

South and Central America, Europe and Africa. In addition, there's a cultural connection in Houston that is unmatched in most other markets.

"Japanese companies are likely to have a headquarters in New York or California, but they're increasing business in the United States and putting offices in each major city," said Junji Kurokawa, the chief executive director for the Japanese External Trade Organization's, or JETRO, Houston office.

Texas has represented a strong market for Japan in the past for the energy industry. And if the Trans Pacific Partnership were to be approved, the United States and Japan, which do not have a free-trade agreement in place, would likely see a significant increase in trade.

In addition, Kurokawa expects as the market matures that a second and third wave of Japanese businesses, largely manufacturing and other energy services, to begin cropping up in the state.

"The West Coast is easier (for Japanese businesses). It's much more familiar for the Japanese people," Kurokawa said. "But, while it might be more comfortable the cost and competition are high."

Couple the desire to get away from high costs of business with a larger, untapped market and the United States represents a potential gold mine for almost any international business.

In the June 2015 purchase of Houston-based HCC Holdings Inc., an insurance company with $11 billion in assets, Japan-based Tokio Marine made its third U.S. acquisition to grow its revenue after it reached a ceiling at home.

"(Tokio Marine) took the view that they had a significant market share there, and the reality was that it wasn't going to grow dramatically," said Chris Williams, CEO of HCC Holdings.

In 2000, only 3 percent of Tokio Marine's profit came from international business. In 2015, with the HCC deal, that number jumped to 45 percent.

That trend stretches across industries. JGC America Inc. a global engineering firm that focuses on the energy industry, opened an office in Houston at the peak of the oil boom. The original plan was to hire 1,000 employees in three years and become a major player in the market. With oil prices where they are lately, those expectations have been tempered a bit. However, Furuta sees Houston less as a short-term dice roll and more as a long-term strategy for the company.

And for Japanese air-conditioning giant Daikin Industries Ltd., which purchased Houston-based Goodman Global Group Inc. in 2012 for $3.7 billion, the move represented a chance to bring its products to the U.S. for the first time.

“This is one of the rare occasions, at least in my experience, when an Asian company who has acquired an American company is taking its technology from Asia, bringing it to the U.S., and, as a result, is creating jobs in the U.S.,” former Goodman CEO David Swift said in 2013.

The acquisition has begun to pay off in the Houston market. Just over a year ago, the new entity announced it would begin construction on a 4 million-square-foot campus on a 90-acre parcel near U.S. Highway 290 and Texas State Highway 99. The space has been heralded as one of the top economic development projects of 2015, and when completed, will be the largest tilt-wall building and second-largest contiguous industrial space in the United States, second only to the Boeing plant in Seattle, according to the GHP.

Projects like the Daikin Goodman manufacturing facility and increasing regular flights to and from Tokyo are why the city of Houston led a 36-person delegation to Japan to promote trade between the two markets.

There is also the belief that because the Houston market is already home to several major Japanese players, including Toshiba, Mitsubishi and oil giant Inpex, that new entrants to the United States will look for a market that feels familiar.

“They want to have other peers here to speak to and talk about the experience,” Pertierra said.

In addition, a network of cultural bridges make it easier for a Japanese expat to adapt. Houston is home to 3,700 residents born in Japan and 4,000 fluent speakers, according to the GHP. Houston offers an array of restaurants, shopping and even housing that fits nicely with the cultural standards of Japanese residents. And it’s only expected to increase as more business is done between the two markets and as more flights between Tokyo and Houston are added.

That solid population base is one reason Japanese businesses have looked for Houston as a location for companies that cater to the Japanese market. For example, Daiso Industries Inc., a Japanese retailer, announced it would open 10 to 12 of its “100-yen stores” in Houston over the next year and a half, and Marukai Corp. USA, a major Japanese supermarket chain in based in Gardena, California, will open a Japanese store on Dairy Ashford Road in the Energy Corridor.

“Houston is a manufacturing center. That can’t be overstated,” said Pertierra. “The availability of a talented workforce and the fact the Japanese are one of the world’s leaders in manufacturing, they see and value that significantly.”

Chris Williams, *CEO, Tokio Marine HCC*

For insurance giant Tokio Marine, its Japan market share had begun to reach its peak, and in order to grow, the company began to look internationally. After two other U.S. acquisitions, *Tokio Marine bought Houston-based HCC Insurance Holdings for $7.5 billion in 2015. The deal made sense because of the businesses HCC represents, CEO Chris Williams said. The company now goes by Tokio Marine HCC.*

What has it been like culturally?

They've been terrific to deal with from the start of the conversations all through the due diligence and continuing on, given that we've only closed at the end of October. They're extremely thorough, detail-orientated as most Japanese seem to be. They're very respectful. In North America, we're a little more direct and to the point. Quite often, we'll come up with a position before we get to a meeting, and you'll go through the conversation but they'll already have arrived at the landing of where they want to get to.

What's your advice to a Houston-area CEO approached by a Japanese business for an acquisition?

The greatest misconception is that they take forever to make a decision.

I met with them for the first time in the first week of February 2015, and by early May 2015, we had a letter of intent. There's the perception that these guys take forever to do things, but they did a $7.5 billion transaction in three or four months.

My comment would be that you need to be attentive. If they like the business, they have the ability to move very quickly. They are extremely thorough and very polite.

Do you see more acquisition activity happening from Japan and other countries?

I do. There are certain economies that are stagnating and Japan is a great example. (Tokio Marine) has a 30-plus percent market share there. There's a limit to how much they can grow. The U.S. is the biggest insurance market in the world, so by definition, anyone who wants to come to an existing vibrant economy is going to come to the U.S.

Kyle Kem, *President, Toshiba International Corp. Social Infrastructure Group*

One advantage Houston holds for Japanese companies is the ability to better serve North America, Central America, South America and Europe. Toshiba International Corp., a major supplier to the oil and gas sector, knows that all to well.

TIC has been in Houston for a while and today employs 1,100 people, according to its website. With its reputation as a business-friendly state, Texas will only continue to be a landing place for new business, said Kyle Kem, president of Toshiba's social infrastructure group.

Why is Houston such a positive market for Japanese businesses looking to do business in the U.S.?

With Houston, you have the port, which is a big part of bringing equipment here. Houston has a large industrial base of users that would be purchasers of our equipment. That was one reason we came down here with all the petrochemical, refinery and gas businesses.

What's it like doing business with a group of people on the other side of the planet? This is my 19th year. It's something I think you get accustomed and used to. With email, a lot of communication can occur 24/7, so that eliminates some of the challenges with time zones. But when needed, we'll schedule a conference call in our evening and their morning.

With face-to-face meetings, we typically are over there four to five times a year for operational update meetings.

What are the cultural differences between the two countries in terms of doing business? The Japanese culture is one that's built on collaboration from the day they're born, whereas the American culture is more about independence.

Eiki Furuta, President, JGC America Inc.

Engineering firm JGC America opened its Houston office around two years ago with plans for rapid expansion over the next three years. The downturn in oil prices greatly impacted their growth plans, but Eiki Furuta, JGC's president, has taken a long-term approach to the company's strategy in the market and has built JGC's first American office as a blending of the "samurai" and "cowboy" cultures of the two nations.

What's your experience of doing business in Houston?

The first time I came here was about 25 years ago. When you go to a new city, you feel a little bit scared. I didn't feel that here, maybe because Houston feels very open to the people, to the visitors.

My first impressions are still the same today. People are welcoming to strangers here.

How do you blend the two cultures of a Japanese-based company with a U.S. office?

There is always a choice between organic growth or to merge existing companies. It's really dependent on the industries and the companies' cultures. Whichever you select, you must study which is more advantageous.

In our case, we don't have a factory, only people. To bring this company to operate, it's better to do it from scratch.

When we decided to open a Houston office, we had a discussion in Japan about how to have a unique American engineering contractor with the Japanese spirit. When we opened this office, the phrase was the cowboy and the samurai. This is not simply the cowboy company, or the samurai company, but mixed.

Will more Japanese businesses settle in Texas compared to the East Coast and West Coast?

Yes. Business itself (the oil and gas industry) today might not be easy, but the business circumstances are very friendly to start a new business.

Kari Durham, Senior vice president of human resources, Goodman Manufacturing LP

One of the marquee deals between Japan and Houston was Daikin Industries' acquisition of Houston-based Goodman Manufacturing for $3.7 billion in 2012. The deal sparked a $417 million campus in northwest Houston that is expected to be an economic boon for the area.

What sort of barriers are there in doing regular business with Japan?

From a language perspective, we do have our challenges. It's not only translating the language but the culture, practices and thought processes.

We've had misfires on communications all the time. Maybe one that's more humorous: You have people who come into our business to translate who don't know our business at all. Some words or phrases, such as package unit, for example, combine the pieces of the unit of AC system. Every time it was translated, it was translated as "a gift." It's difficult to get to a point of understanding.

Internally, we've started to develop a staff (to help translate). Our CEO in the U.S. is Japanese. He has a translator who is with him all day, every day.

We've done a lot of training when it comes to Japanese culture. That starts with understanding history, the way they learn and the school system.

What has been the Daikin team's reaction to Houston?

They're very fascinated by some of our Texas culture. They'll come and get custom-made cowboy boots. They're very intrigued by Texas culture, but we haven't seen a lot of challenges in dealing with them.

How’s the management process changed?

Decision-making is very different. They spend a lot of time getting consensus. They get consensus at all levels.

In U.S. business, we spend a lot of time getting to a decision, then we push it down before people align and gather around a decision. We think the decision process in Japan is slow; they think we’re making decisions too quickly.

Cowboy meets Samurai cover story

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