

The Role of Bridging Ties in Chinese Outbound M&As in Japan

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1. Background

Over the years, Asia has received a large amount of foreign direct investment (FDI) from developed countries. However, as Asian countries achieved high levels of economic growth in recent years, a new pattern of international capital flows has emerged. Emerging economies in Asia, most notably China, are now engaging in outbound mergers and acquisitions (M&As), a form of FDI, used to acquire firms in developed countries that have skills and technologies. Chinese M&A outflow indicates an upward trend, and that Asia is the main region of investment (Schüller *et al*, 2005). The total value of China's outbound M&As in 2012 reached a record-high of \$65.2 billion, making a five-fold increase from \$10.3 billion in 2008, according to PricewaterhouseCoopers' (PwC) report (Xinhua, 2013).

2. Objective

There are some studies related to the performance of Chinese companies after engaging in outbound M&As. For example, Todo *et al*. find that sales, productivity, and tangible and intangible assets of acquiring firms increase substantially after M&As (Todo *et al*, 2013). However, there is not enough research done on the impact of Chinese outbound M&As in developed countries from the perspective of seller firms. Therefore, the objective of this paper is to examine the factors for success of Chinese outbound M&A in Japan. The definition of success in this paper is that the seller's growth rate of stock price is positive after M&As.

3. Methodology

After overviewing the success factors of China-Japan business through interviews, I analyze all the 35 cases of cross-border M&As

between listing companies from China to Japan covered by RECOF, the largest provider of information on M&As in Japan. After figuring out the importance of bridging ties, the economic keyword in this paper, for M&As, I picked up 4 cases to investigate. The 4 cases are (1) Suning Appliance Co's acquires electronics retailer LAOX, (2) INSIGMA Technology Co., Ltd. tied-up IT software company SOLXYZ Co., Ltd, (3) Haier Group Corp. acquires Sanyo Electric Co.'s household-appliance businesses from Panasonic Corp, and (4) Shandong Ryui's investment acquires apparel firm Renown Inc.

In addition to qualitative case study, I conducted quantitative data analysis to see the impact of bridging ties on the growth rate of stock prices. To consider the different effects of bridging ties on the stock price, I made an index, "The Log Growth Rate of Stock Price relative to Nikkei Stock Average¹", and I conducted data cleaning and divided 12 cases into 2 groups: (1) firms without bridging ties (2) firms with bridging ties.

4. Results

Qualitative and quantitative results in my paper demonstrate that existence of bridging ties is one of the most important success factors of M&As. Having enough business connections and understanding both cultures is an essential component of such ties. Moreover, there are two key roles of bridging ties.

¹ To standardize the stock prices of each firm and to take account of the trend of share price itself, I use the formula as below. "P" means the price of stock, "N" means the Nikkei Stock Average. "t" refers to the current date, and "s" refers to the date of M&A announcement. I use stock price as the indicator because the market always objectively checks and reflects to it.

The Log Growth Rate of Stock Price relative to Nikkei

$$\text{Stock Average} = \frac{\log \frac{P_t}{N_t} - \log \frac{P_s}{N_s}}{t-s} \times (\text{Number of Workdays})$$

(1) Harmonizing and integrating business systems and cultures

In China, comparatively, business connections are very important, and the consequence of bridging ties is really huge. Chinese firms already know the importance of close human relations in China, and adapt it to M&As for success. However, the connections only work when both Chinese and Japanese business cultures are well mixed. In that case, they are already ready to use their connections, and grow their business after the deal. Specifically, the business networks really worked in the case of SANYO and LAOX, but not in the Renown's deal. As the management strategy, business connections work from top-down, and the introduction of Chinese business cultures work from bottom-up. When M&As occurred, the harmonization of business systems and cultures by excellent bridging ties can be one of the biggest key success factors.

(2) Relieving workers and shareholders of their anxiety

"Hesitation of Japanese people to be managed by Chinese" and "Image of state-owned company" are the bottlenecks that I identified through my interviews. These bottlenecks might be a special features and quite serious because of the political conflicts between Japan and China on issues such as Senkaku Islands. The fear of China or the fear of the China anti-Japanese demonstrations may be provoked by the broadcasting on TVs or articles on the Internet and in newspapers. However, in some cases, Japanese firms actually had trouble in China, and the damages reflected their sales and profits. IHS Automotive, a research agency in the states, argues that the expansion of Chinese market can be disadvantage for Japanese firms because they have the risk of China anti-Japanese protests (Nikkei Newspaper, 2013/11/27). Bridging ties can reduce, or even

diminish the fears and anxieties, which can be the success factor for companies like SANYO, LAOX and SOLXYZ.

5. Implications

Now, developing countries are growing rapidly, and more and more firms in these countries may try to buy Japanese technologies and skills like China did. Even if the political clashes happen between more than two countries, private companies have to continue running businesses and gaining profits. This survey brings them some important tips for their management.

Reviewing the results of data analysis, the industries, total amounts and type of M&As are all varied among M&A, and there are no special variables that seem to affect the upturn of stock price except the existence of bridging ties. However in the future, when the M&A cases will reach enough numbers for econometrical data analysis, then perhaps the other variables can be discovered as another important success factor of M&As.

6. References

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