White Knight from China? A Case Study of the Turnaround of a Distressed Japanese Firm under Chinese Ownership

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Keywords: emerging market multinationals; mergers and acquisitions; organizational turnaround

1. RESEARCH QUESTION

It has been found that Emerging market multinationals favor mergers and acquisitions (M&As) as the entry mode into advanced economies, because such M&As allow EMNEs to obtain strategic assets in a quick and direct manner (Rui and Yip, 2008). Given this intention, a bunch of research are conducted to figure whether and how M&As by EMNEs in advanced economies actually fulfill their original objective: transfer of the strategic assets from the advanced market targets to EMNE parents (Ai and Tan, 2020). However, much less attention has been given to the performance of the target firms in advanced economies under emerging market ownership (Elia et al., 2019).

This unbalance in research attention is vital. On one hand, it results in an incomplete understanding toward the value-creation story of M&As by EMNEs in advanced economies. As the M&As literature indicates that value-creation is about synergy, the performance enhancement of both the acquirer and the target should be important (Haleblian et al., 2009). On the other hand, whether the advanced market targets can benefit from emerging market ownership has practical implications to policy makers and firms in advanced markets. Stakeholders in advanced economies are usually pessimistic toward M&As by EMNEs, because of the poor image of their home countries (He and Zhang, 2018). Addressing the gap and its significance, this paper answers the following questions: What performance-enhancing strategies are available for the advanced market firms under emerging market ownership? How does the home country of the EMNE parent matter in forming those strategies?

2. RESEARCH DESIGN

Given that those questions are rarely explored in prior literature, the purpose of this study is to propose preliminary and potential answers. To that end, a two-step research design is applied. First, I critically review prior studies and integrate them into a systematic conceptual model. Institutional-based view (IBV) and resource-based view (RBV) are combined to serve as the theoretical lens during this process. Second, I use a case where a Japanese distressed firm realized turnaround under Chinese ownership to illustrate how the conceptual model can be manifested in reality (Siggelkow, 2007), paving the way for further empirical studies.

3. THEORY, PROPOSITIONS, AND CONCEPTUAL MODEL

3.1 Theoretical foundation

Given the empirical context of the focal phenomena, I draw on RBV and IBV to lay the theoretical foundation of this study. First, as suggested by IBV, the resource conditioning of firms is shaped by the institutional configuration of the markets where the firms are embedded in (North, 1990). Given the "institutional distance", which is the difference of institutions between markets, firms embedded in different markets have different resources (Madhok and Keyhani, 2012). Second, as suggested by RBV, the formation of sustained competitive advantages relies on specific resource conditioning, particularly the value, rarity, imitability, and substitutability of the resources (Barney, 1991). Moreover, the availability of strategies depends on the characteristics of the resources conditioning of the firms.

3.2 Propositions and model

Then, I extend those core arguments to the focal phenomena. First, the existence of institutional distance improves the degree of the target firms' resource heterogeneity, typically for advanced market targets acquired by emerging market firms. Second, specific to emerging market studies, the existence of "institutional voids" shall be taken into consideration. Referring to the deficient institutional environment, the prevalence of institutional voids in emerging markets lower the quality of resources that can be accessed and developed by emerging market firms. As a result, the "value" dimension of the advanced market targets may not be improved or even deteriorate after the acquisitions by emerging market firms. As such, the following propositions are derived:

P1 *Under the emerging market ownership, the resource heterogeneity of the advanced market target firm is strengthened.*

P2 *Under the emerging market ownership, the resource inferiority of the advanced market target firm is strengthened.*

Next, I conceptualize how the change of resource conditioning leads to strategic options that are available for advanced market targets firms to enhance their performance under emerging market ownership. As suggested by Barney (1991), higher resource heterogeneity leads to competitive advantages, while higher resource inferiority leads to competitive disadvantages. To enhance performance, the firms should leverage competitive advantages and avoid disadvantages, which informs two major strategies: *arbitrage* and *escape*. As such, the following propositions are derived:

P3 *The advanced market target firms can implement an arbitrate strategy, which is to leverage the resource heterogeneity to seize alternative opportunities that are previously not available, in order to achieve competitive advantages.*

P4 *The advanced market target firms can implement an escape strategy, which is to shift the domain of activities from those where the resource inferiority matters to those where the resource inferiority does not matter, in order to avoid competitive disadvantages.*

To better understand the diversity of strategies, I adopt the market and non-market categorization to divide market resources, non-market resources, market strategies and non-market strategies (Henisz and Zelner, 2012), deriving the following propositions:

P3a *The advanced market target firms can implement a market arbitrate strategy, which is to leverage the resource heterogeneity to seize alternative market opportunities that are previously not available, in order to achieve competitive advantages in the market field.*

P3b *The advanced market target firms can implement a non-market arbitrate strategy, which is to leverage the resource heterogeneity to seize alternative non-market opportunities that are previously not available, in order to achieve competitive advantages in the non-market field.*

P4a *The advanced market target firms can implement a market escape strategy, which is to shift the domain of market activities from those where the market resource inferiority matters to those where the resource does not matter, in order to avoid competitive disadvantages in the market field.*

P4b *The advanced market target firms can implement a non-market escape strategy, which is to shift the domain of non-market activities from those where the non-market resource inferiority matters to those where the resource does not matter, in order to avoid competitive disadvantages in the non-market field.*

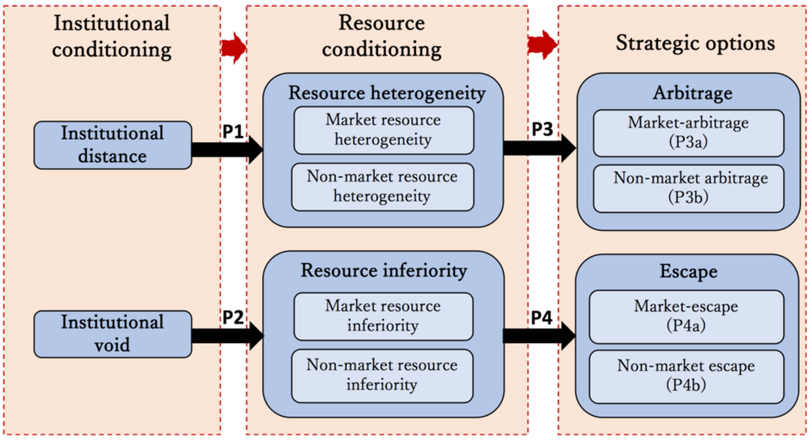

Figure 1. Conceptual model.

4. CASE ILLUSTRATION

4.1 Method, data, and case firms

To show how the model can be manifested in reality, I use a real case of a Japanese firm Laox's turnaround under Suning, a Chinese firm's ownership as an illustration. I gathered archival data between 2009 to 2019, which consists 971 newspaper articles, 223 press release from the website of Laox, and 11 annual reports of Laox.

Founded in the 1930s, Laox was a long-lived Japanese traditional electronic retailer that went public in 2000. After the 2000s, due to the intensified domestic competition, Laox began to decline. In 2009, Laox formed capital partnership with Suning, and became the latter's subsidiary in 2011. In 2019, 10 years after the acquisition, Laox has realized a successful turnaround, growing its sales volume to the 16.8 times of 2009.

4.2 Illustration for strategic options

Market arbitrage. Laox transformed from a general electronics retailer into a duty-free shop company that targets mostly Chinese tourists. By leveraging Suning's resources, Laox could attract Chinese tourists through promotions in China and offer them after-service by Suning after they leave Japan. It also entered the Chinese market directly through real stores and online platforms, sharing Suning's operational resources.

Non-market arbitrage. Laox legitimated itself by appealing its contribution to the Japanese society as a Japanese culture exporter to China. It also acquired legitimacy from Chinese stakeholders to participate business projects in China that are usually unavailable for foreign companies.

Market escape. Laox chose to "escape" from the highly competitiveness demanding Japanese electronics retailing industry to duty-free industry where the inferiority of Suning's resources in Japanese electronics retailing matters less.

Non-market escape. Laox choose to "escape" from its original legitimacy demanding stakeholder networks in Japan to increase the ratio of Chinese stakeholders such as Chinese tourists as customers, Chinese employees, and Chinese business partners, networks where the inferiority of Suning's non-market resources matters less.

(Given the limited space, section of discussion is not included in this abstract.)

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