Vilnius University Press

Contents lists available at Vilnius University Press

Organizations and Markets in Emerging Economies
2020, vol. 11, no. 1(21), pp. 35–54

ISSN 2029-4581 eISSN 2345-0037
DOI: https://doi.org/10.15388/omee.2020.11.22

Chinese Cross-Border Acquisition Strategies in Japan – Changing from a Resource-Driven to a Market-Driven Approach

Fei Chen

Graduate School of Business Administration, Kobe University, Japan
fchen.fay@gmail.com
https://orcid.org/0000-0003-4931-6957

Kashif Ahmed

Graduate School of Business Administration, Kobe University, Japan
kashif.ahmed@stu.kobe-u.ac.jp
https://orcid.org/0000-0003-1002-2898

Ralf Bebenroth (Corresponding author)

Research Institute for Economics & Business Administration (RIEB), Kobe University, Japan
rbeben@rieb.kobe-u.ac.jp
https://orcid.org/0000-0002-5439-0564

Abstract. *The aim of this research is the investigation of strategic behavior of Chinese investors in Japan when making cross-border acquisitions in recent times. While previous literature on acquisitions tended to show that Chinese acquirers were merely resource-driven, i.e. their main purpose was to acquire products, brands, and knowledge to be transferred back to the (Chinese) home market, our study suggests that the behavior of many Chinese firms has changed lately. In a pivotal study with 39 Chinese bidders taking over Japanese targets, we find that their strategy has become increasingly market-driven instead. As far as industry-wise acquisitions are concerned, Chinese firms are taking over Japanese hotels and recreation facilities in recent years for the purpose of providing services to Chinese tourists.*

Keywords*: Chinese MNEs, cross-border acquisition, Japan, market-driven, resource-driven, comparative ownership advantages*

Received: 10/27/2019. **Accepted:** 2/7/2020
Copyright © 2020 Fei Chen, Kashif Ahmed, Ralf Bebenroth. Published by Vilnius University Press. This is an Open Access article distributed under the terms of the Creative Commons Attribution Licence, which permits unrestricted use, distribution, and reproduction in any medium, provided the original author and source are credited.

1. Introduction

Cross-border acquisitions are traditionally categorized according to at least two significant motives, viz. asset augmentation and asset exploitation (Chen & Young, 2010). If enterprises are motivated by asset augmentation, they pursue cross-border targets to enhance efficiency and competitiveness. If the latter motivation propels them, they would find ways to leverage the acquired target in a new setting, which in turn enables them to gain competitive advantage over domestic companies in the host nation (Caves, 1971; Neary, 2007). As such, a significant motive for firms to engage in cross-border acquisitions lies in value-creation strategies through capitalizing expected synergies between two or more organizations (e.g., Larsson & Finkelstein, 1999; Schweiger & Very, 2003).

Traditionally, leading firms from developed markets acquire cross-border targets so as to get a foothold in a foreign country (Rottig & de Oliveira, 2019). Recently, there is evidence that emerging market firms are often entering markets in developed countries by taking over firms in cross-border deals (Urbšienė et al., 2015). Researchers frequently assert that developing countries' cross-border acquisitions are mainly led by strategic-asset seeking motivation (Dunning et al., 1996).

After experiencing decades of inbound investments, China's opening to the outside world policy has entered a new stage of development, and foreign direct investment (FDI) of Chinese firms has become a global phenomenon (Tu, 2019). China has emerged as a new investor, albeit facing significant misperceptions abroad (Li et al., 2019). Chinese acquiring companies have the image of a relatively weak technological competitive advantage in the international market, the aim of their acquisitions is, therefore, to acquire natural resources, brands or technologies. Their reputable are reputable brand names that can be sold in the home country for a high-profit margin in order to build their core competitiveness. This behavior is referred to as the "resource-driven approach" of taking over firms (Luo & Tung, 2007; Rui & Yip, 2008; Deng, 2009; Rienda et al., 2013; Alvstam et al., 2014). Such an approach can be illustrated by the Chinese acquisition of *Renown*, a Japanese apparel maker with a high brand name. The company enjoyed high-profit margins because Chinese consumers (in their own country) were familiar with its high brand image. A study conducted by Sun et al. in 2012 also showed that Chinese MNEs preferred to acquire natural resource-intensive firms. Also, Indian MNEs and Chinese MNEs prefer backward integration in cross-border acquisitions because China and India need to focus on controlling resources as latecomers to the global economy. Stroem and Nakamura (2014) also confirm that Chinese firms predominantly adopt a resource-driven approach while acquiring Japanese firms. On the other hand, Boateng et al. (2008) studied 27 Chinese cross-border acquisitions from 2000-2004 and found that most of the Chinese cross-border acquisitions were seeking international expansion, international diversification, or ways to increase their market share. This approach is referred to as the "market-driven approach" (Boateng et al., 2008).

In this study, we argue that since Chinese firms have conducted cross-border acquisitions for around two decades, acquiring much M&A experience in the process, they are now changing to a more market-driven approach when taking over Japanese targets. Most previous studies focus on either China's cross-border acquisition globally (Chen & Young, 2010; Boateng et al., 2008; Li et al., 2016), or China's cross-border acquisitions in developed markets, such as the US or UK (Zou & Ghauri, 2008; Anderson & Sutherland, 2015). There have not been many studies conducted on Chinese cross-border acquisitions in Japan (Stroem & Nakamura, 2014). To the best of the authors' knowledge, studies have yet to be conducted on recent Chinese bidders` motives in acquiring Japanese targets. In this study, by focusing solely on Chinese cross-border acquisitions in Japan, we are able to gain a better understanding of recent Chinese cross-border acquisition strategic changes and the driving forces behind them.

This research combines the strategy literature on the ownership-location and internalization theory by Dunning with cross-border acquisitions of firms by a developing market (namely China) in a developed market (namely Japan). This study aims to provide some crucial evidence that the Chinese cross-border acquisition strategy in Japan has changed in recent times. For this, we examined 39 transactions in Japan by Chinese investors who had adopted market-driven and resource-driven approaches, and performed a Fisher's exact test on the sample. Our results indicated that the behavior of Chinese bidders had indeed changed recently. While early investments were predominantly resource-driven, recently (at least since 2013), we have seen a more balanced approach of market-driven acquisitions. We believe that this change in behavior is due to the need for Chinese firms nowadays to get into the Japanese market to sell their products and services there, instead of taking brand names home to China.

The paper is organized as follows: the next section reviews the literature on outward FDI, in particular, cultural distance, the liability of foreignness, and Chinese FDI strategic behavior. Following that, a description of the sample is provided, and statistical analysis is presented. This is followed by case studies to analyze further how Chinese acquisition strategies in Japan are changing, showing mainly the industries that are affected and the driving forces behind that movement. In the last section, concluding observations are made, including directions for further research on the subject.

2. Literature Review

2.1 Chinese outward Foreign Direct Investment (FDI)

With Chinese firms having been known for a long time as the workbench for first world countries (Rotting & de Oliveira, 2019), the acquisition of cross-border targets by Chinese firms is a recent phenomenon. Urbšienė et al. (2015) observe that Chinese firms taking over European targets generally pay twice as much premium as domestic (European) bidders would for their targets. Chinese outward FDI is supported by the State

government and by local governments; such support offsets the competitive disadvantages of Chinese firms facing global competitors (Luo et al., 2010).

There is evidence that the speed of Chinese cross-border acquisitions has accelerated recently, especially from 2015 to 2017 (Kirby, 2019). In recent research on Chinese and Indian cross-border M&A, Sun et al. (2012) found an increased tendency in changing from minority joint venture (JV) establishments to majority JVs or to M&A. In other words, China is skipping the earlier stages before jumping into M&A. Moreover, the liability of foreignness (LoF) a foreign investor faces against domestic ones could be mitigated. For instance, a recent study by Schneider demonstrated that managerial tactics of Chinese firms in the US offset their disadvantages (Schneider, 2019). It is also relevant, as Wan et al. (2020) find in a recent study, that liability of foreignness does not automatically decline with time. Chinese outward FDI started in 2000, when the Chinese government officially initiated the Going Abroad policy. At that time, owing to a lack of overseas acquisition experience, Chinese acquirers tended to be aimless regarding their post-merger strategies. This behavior is similar to some of the shopping behavior of Chinese tourists in Japan. A famous Japanese expression is "bakugai," meaning that foreign tourists buy Japanese products excessively on the assumption that they are of high quality. It seems that early Chinese acquirers in Japan were not quite sure what to do with their target companies after their acquisition. Nowadays, however, Chinese companies have learned to make smarter purchases in high-value-added sectors (Wang & Zhao, 2017).

According to Deng (2009), nearly half of all Chinese foreign direct investment in the past was via cross-border acquisitions, and the primary aim was to access and source strategic assets for their potential contribution to ensure a competitive edge. Hence, by doing so in past decades, Chinese acquirers invariably gained a somewhat negative reputation for their resource-driven acquisition strategy. By ignoring the development of foreign target companies, they were perceived as caring only about their development in China. However, many previously prestigious brands of acquired Japanese companies are nowadays experiencing economic hardship. It is interesting to note that many Japanese firms of less popular brands have refused takeovers by Chinese investors owing to their reputation for being problematic in the post-merger integration period. In small-sized Japanese firms, managers consider employees as family members. In contrast, after such firms are acquired by Chinese companies, or sometimes even state-owned firms, there is a different ambience within the company. Of foremost concern is whether the acquisition by the Chinese investor is an attempt to get into a foreign market, or whether it is just for the purpose of taking the branding and technology back to their home market.

A market-driven acquisition strategy is perceived as a win-win situation for both the acquirer and target firm. First, the market-driven acquisition does not automatically lead to layoffs of the target employees because the acquirer needs these employees' knowledge to enjoy sustained competitiveness in the Japanese market. Second, inves-

tors bring much needed capital into established firms, especially Japanese firms that lack the budget to expand (Sun, 2018). With the investment, the target firms could make plans for more development.

In recent years, large numbers of tourists from China have been going to Japan not only for sightseeing holidays but also for shopping. Having knowledge and access to Chinese customers, newly acquired firms in Japan (injected with Chinese capital and led by Japanese management) can serve Chinese clients in the Japanese market better. For example, Chinese Sunning acquired Laox in 2009 and turned the retail business into a mainly tax-free shopping store to attract tourists, especially those from China (Essence Securities, 2009).

2.2 Increase in productivity and globalization

Cross-border acquisitions are a significant entry approach for FDI, usually driven by similar economic factors and prospective benefits which guide other choices such as managing the capital of a company, improving the firm's competitive edge, and diversifying its risks.

Studies have shown that M&A could be an instrument for creating value for acquirers in emerging market economies. Cross-border acquisitions promote internalization of firms that find it either difficult to trade in the market or too time-consuming to be internalized (Gubbi et al., 2010). The group led by Gubbi showed that international acquisitions did create value for Indian firms, as reflected in increased stock prices. Similar findings were seen for Chinese firms. According to Li et al. (2016), while cross-border acquisitions made by Chinese-listed companies create value for the acquirer's stakeholders on average, cultural differences negatively affect value creation. Only more prominent firms and those with more experience are able to take benefits out of cultural differences.

The consequences of domestic M&A and cross-border M&A vary considerably, with studies suggesting that the cross-border acquirer can receive higher profits than the domestic bidder. Bertrand and Capron (2015) showed that cross-border acquisitions could be very beneficial owing to increased productivity in the home country. Bertrand & Zitouna (2008) also noted that the efficiency of French firms was very much improved in cross-border acquisitions compared to domestic ones. A recent study showed that through cross-border M&A, firms increased their productivity levels by more than 15%, compared to companies that relied mainly on exports to the host country (Helpman et al., 2004).

However, while the benefits for the acquiring firms cannot be denied, it is controversial whether cross-border acquisitions create value for target companies. The previously mentioned study by Bertrand and Zitouna (2008) also showed that acquisitions did not increase the productivity of overseas target firms, not even in the long term (Bertrand & Zitouna, 2008). However, if bidder firms were generally considered to have superior knowledge-based assets, and if competitive advantages were transferra-

ble among subsidiaries, target firms should be expected to increase their productivity levels in the long run. Foreign ownership also led to a significant level of productivity improvement in the Indonesian manufacturing industry (Arnold & Javorcik, 2005). This finding lent support to the idea of technological and managerial capability knowledge transfers from a more experienced entity to a less experienced one, thus raising productivity levels.

Meanwhile, studies are suggesting that companies from emerging market economies such as China are using M&A as their primary strategy to become globalized (Kumar, 2009). According to Kumar, these emerging giants are not only cash-rich but they also enjoy value creation from their takeovers. Acquisitions such as joint ventures are known to perform well. The globalization process would eventually transform emerging giants into global leaders, either in market power or in efficiency. Gugler et al. (2003) suggest that to increase profits through M&A, large companies should increase their market power. As large companies lead most of the Chinese cross-border acquisitions, market-driven M&A is a more advanced strategy to increase globalization and profits. We opine that Chinese cross-border M&A will eventually become more market-driven acquisitions in order to benefit from cross-border M&A, especially with regard to productivity and globalization.

2.3 Comparative ownership advantage

The comparative ownership advantage theory was introduced by Sun et al. (2012) based on the comparative advantage theory by Nearby (2007), both grounded on the ownership-location-internalization (OLI) paradigm of Dunning (1980). According to this theory, comparative ownership advantages can be internalized through two sources, viz. country-specific advantages (CSAs) and firm-specific advantages (FSAs). CSAs are composed of country's unique factors such as labor force, natural resource endowments, or culture, whereas FSAs stand for a firm's unique characteristics such as technology, marketing, or distribution capabilities (Rugman & Li, 2007).

Common examples of comparative ownership advantages that nowadays drive even emerging economies' acquirers to make resource-driven cross-border acquisitions in less developed (emerging) markets are lower labor costs, valuable natural resources, and broader underdeveloped capital markets, etc. Moreover, they also buy advanced technology to take it back to their home country so that products of similar quality can be manufactured at much lower costs. The same mechanism can be applied to the acquisition of brands and brand names. According to Sun (2018), the attractive Chinese market and low cost of manufacturing makes Chinese companies ideal buyers of back-transferring brands and technology. However, previous studies seem to have ignored discussions on comparative ownership advantages that drive firms from emerging market economies while acquiring targets from developed market economies.

Chinese firms have been observed to be more future-orientated, possess a harmonious culture, and show greater networking ability than firms of developed economies (Luo & Rui, 2009). Because of unique market characteristics and difficulty in gaining resources in their home country, Chinese firms are good at maintaining relationships with external stakeholders, such as suppliers or government administrators. Having struggled to grow under difficult times, China has made many Chinese firms more experienced and better prepared under institutionally challenging environments. As latecomers to the global economy, many such firms are often more willing to assume risks to acquire new knowledge.

Meanwhile, acquirers from emerging market economies are more likely to gain fiscal or strategic support from home countries, and thus have ample resources for further development. All the above could be seen as market-driven comparative ownership advantages for acquirers in emerging market economies. Making a comparison between China and Japan, Zhang et al. (2005) noted that the Chinese prioritize interpersonal harmony while conservatism is the least endorsed value. These unique characteristics enable Chinese firms to have better internal and external relationships, while coping with innovation ability and rapid development.

In order to realize long-term development and future market growth opportunities in M&A, we formulate the following hypothesis:

Hypothesis 1: *Chinese cross-border M&A motives have changed from a previously resource-driven approach to a more balanced approach of resource-driven and market-driven acquisitions nowadays.*

3. Methodology

Our data were retrieved from the Thomson Reuters Financials SDC database (Thomson ONE Bank), which has also been widely used in other M&A research settings (Chakrabarti et al., 2009; Sun et al., 2012; Cai & Sevilir, 2012). The advantage of using the SDC database was that it allowed us to distinctively compare collected M&A information between Chinese acquirers and Japanese target companies. We identified acquisitions in the SDC database as successful deals where there was more than 5% ownership after the deal. Although the first author of this paper is a Chinese citizen we were not able to collect trustworthy data from the Chinese government sources.

3.1 Data description

We examined cross-border acquisitions from 2002 to 2016 as our total population. Notably, the acquirers or the acquirers' parent companies were registered in China, and the targets were located in Japan. We first identified a total of 75 successful cross-border FDI transactions by Chinese MNEs. During the sample selection process, however,

transactions having the following attributes were excluded from our original population: (1) capital increases of previous transactions; (2) undisclosed acquirer's name or target name; (3) transaction for forming a joint venture instead of an acquisition; and finally, (4) insufficient information either at the official target firm websites, or at any other databases such as "Bloomberg" or "CNINFO", or the Chinese News Net. As a result, the final sample was reduced to 39 cross-border acquisitions of Japanese targets by Chinese firms.

3.2 Data Analysis Tool

In order to classify our sample firms, we performed Fisher's exact test on our sample of 39 acquirers. This is a statistical test used to determine if there are associations between two categorical variables. For this, we checked the difference in the proportions of a market-driven or a resource-driven intention by dividing firms into two groups, early versus late investors. We further split the Japanese target firms into two groups. We classified the first group as acquired by Chinese firms with a resource-driven intention, i.e. they were identified as being acquired by Chinese firms with the intention of transferring technology and brand names back to China. The second group comprised Chinese firms which intended to enter the Japanese market through their acquisition. Our classification was based on the acquirer's M&A report and the financial statement of the year of the transaction. We also took into consideration the acquirer's public press releases that included the CNINFO Database and were designated for information disclosure by the China Securities Regulatory Commission (CSRC). We prioritized the acquirer's disclosure information on the CNINFO Database for further analysis. For Chinese firms taking a resource-driven approach in their acquisition, we scrutinized specific statements in their official reports, looking out for sentences or nuances in the official reports like "… future development in China…" (Edifier, 2011, Dec 7, p.4), "… acquiring the advanced technologies from Japanese target…" (Insigma Technology, 2011, June 14, p.8), or to "…introduce the brand in the Chinese market…" (Dongxiang, 2009, p.3).

In cases where Chinese firms intended to enter the Japanese market, we detected words such as "…in order to gain market power in Japan…" (Haier, 2011, July 28, p.39), or "… to serve Japanese customers" (Talkweb, 2015, Aug 6, p.3). Additionally, when the market-driven approach was adopted, Chinese headquarters rather hesitated to lay off Japanese employees at the target firms since the acquiring firms needed the local employees' accumulative knowledge in the Japanese target market. We classified such cases as market-driven; they also included instances where new service lines were acquired.

4. Results

4.1. Classification of market-driven and resource-driven investments

In Table 1, we see that early Chinese acquisition's strategic motivations tended to be more resource-driven. For example, Shandong Ruyi acquiring Renown, and Haier acquiring Sanyo can serve as examples of Chinese resource-driven acquisitions because Chinese acquirers aimed for advanced technology or brand names. At later stages, precisely since 2013, Chinese firms have become more market-driven. The Chinese firm Laox, e.g., serves as a typical market-driven acquisition by a Chinese acquirer targeting a firm in the Japanese retail market.

TABLE 1. **Deals classified as market-driven and resource-driven investments**

Year	Number of investments	Market-driven	Resource-driven
2002	1	0	1
2003	1	0	1
2004	1	0	1
2006	2	1	1
2008	3	0	3
2009	3	1	2
2010	9	0	9
2011	5	0	5
2012	3	0	3
2013	1	1	0
2014	2	1	1
2015	4	1	3
2016	4	3	1

The classification of investments is done by separating earlier and recent investments (Attachment 1). Fisher's exact test was then conducted to investigate its significance.

Fisher's exact test for separation of investments is presented in Table 2.

TABLE 2. **Aggregated separation of investments**

Investment Period/Approach	Resource-driven	Market-driven
Earlier investments 2002–2012	26	2
Later investments 2013–2016	6	5

Fisher's exact test results show that the proportion of resource-driven and market-driven investments statistically differs between early and late investments at the 1% level (Attachment 2). The corresponding odds ratio of 9.97 showed the possibility that recent Chinese cross border investments which were market-driven were almost ten times as high as those which were resource-driven.

4.2 Industry separation

Industry separation helped us to validate our findings of the driving forces behind changes. According to the SDC database, the 39 acquirers belonged to 16 industry sectors, such as Electronic and Electrical Equipment, Business Services, Miscellaneous Manufacturing, etc. However, the authors were aware that the SDC database did not always classify the acquisition's target industry correctly. For example, Fosun International acquired Idera Capital Management in 2014, and the industry sector was marked as "Drugs". The first author carefully affirmed relevant management reports that were presented in Chinese and English. For instance, it was found that when Fosun International acquired Idera Capital Management, the official report stated: "…IDERA will become a platform for Fosun to invest in real estate in the Japanese market and continue to provide excellent real estate funds and asset management services for Western and Japanese investors…" (Fosun, 2014, Mar 26, p.22). Thus, we correctly classified the target industry of Fosun as "Business Services". Since we were interested in categorizing target industries that adopted resource and market-driven approaches, we categorized them into six sectors: manufacturing, high-tech, pharmaceuticals, retail, business services, and tourism. Table 3 shows our target sample industry classification.

TABLE 3. **Target industry classifications**

Industry/ Period	**Earlier investments (2002–2012)**		**Later investments (2013 – 2016)**	
Target Industry	**Market-driven**	**Resource-driven**	**Market-driven**	**Resource-driven**
Business Services	0	1	1	0
High-tech	0	6	1	2
Manufacturing	1	15	1	3
Pharmaceuticals	0	3	0	0
Retail	1	1	0	0
Tourism	0	0	3	0
Grand Total	2	26	6	5

Table 3 indicates that acquisitions from firms in the manufacturing industry have decreased recently, while the ratio of acquisitions in the high-tech industry has increased. For business services and retail, the ratio of market-driven acquisitions and resource-driven acquisitions was equally distributed. For the pharmaceutical industry,

all acquisitions were resource-driven. One interesting phenomenon discovered in the current research was that Chinese acquirers had started to target Japanese firms in the tourism industry. All three cross border acquisitions in the Japanese tourism industry happened recently and were all classified as market-driven acquisitions. In the following we present short case studies of market-driven acquisitions.

5. Case Studies

5.1 Tamadai Takeover by Dalian Jinwen

Dalian Jinwen Jinshu Zhipin (Dalian Jinwen) acquired Tamadai at the time when Chinese acquirers were notorious for their resource-driven acquisitions in Japan. Chinese acquirers then were perceived as taking core technology and the brand names back to China without having any consideration for the target employees (Dasen International, 2017). When Tamadai could not find any domestic (Japanese) firm that was willing to acquire it because of the shrinking Japanese aluminum die-casting market, the Chinese investor Dalian Jinwen stepped in. It was the only firm willing to accept the challenges that came with the acquisition of Tamadai (Dasen International, 2017). Dalian Jinwen was engaged mainly in aluminum die-casting, aluminum product processing, riveting mechanical processing, import and exports of products and technology. Its main stakeholder, Dalian Pengcheng Investment Group (Dalian Pengcheng), had already established partnerships with several Japanese companies before the takeover of Tamadai.

The acquisition of Tamadai represented a turning point. When the Japanese target firm accepted the bid by the Chinese acquirer, it stipulated two conditions, viz. the internal management system of the company must be maintained, and employees' safety should be guaranteed by providing stable working conditions. Dalian Metal accepted these conditions and acquired Tamadai. Accordingly, Dalian Jinwen transferred management responsibilities to the Japanese target, Tamadai. The capital invested in Tamadai saved the company from closing down.

5.2 Idera Capital takeover by Fosun

The Japanese firm, Idera Capital Management Ltd (Idera), was acquired by the Chinese firm Fosun International Ltd (Fosun). It was Fosun's first attempt at a cross border acquisition in Japan. Idera's business comprised mainly fund management and asset management. The target was mainly involved in stocks, bond market, and local real estate markets. In addition, the target also provided consulting services in the real estate market. The Chinese Fosun group originally had investments focusing on the Chinese power plant industry. Before taking over Idera, Fosun had started to increase its overseas asset allocations. Its investment strategy was to focus only on industries and sectors that could benefit by China's growth, the so-called "China power grafting global resources" (Fuxing, 2015 Mar, p.21). Fosun's global strategy map designated IDERA as Fosun's

real estate investment management platform in Japan (Fuxing, 2015 Mar). At the same time, IDERA became a hub for connecting real estate investment opportunities and investors in China, Japan and even third countries. Hence, acquiring Idera further globalized Fosun, opening doors not only to Japan but also to third countries. With Idera's networking, Fosun could ease their liability of foreignness (LoF) by investing in the Japanese market.

The comparative ownership advantage of Fosun was its strong financial resources. With new capital injection by the Chinese firm, Idera became again a financially healthy firm.

5.3 Tomamu takeover by Yuyan

Shanghai Yuyuan Tourist Mart (Yuyuan) announced the purpose of acquiring the Hoshino Resort Tomamu (Tomamu) in Hokkaido in 2015: "…in order to expand the company's industrial investment, the company has been actively seeking investment opportunities in tourism and business based on our development strategy…" (Yuyuan Group, 2019, Mar 22, p.98). The Chinese acquirer Yuyuan operated commercial facilities around Yu Garden, a famous scenic spot in Shanghai. The Japanese target Tomamu Resort was a comprehensive resort facility. In addition to the ski resort, there were facilities such as hotels and golf courses. After the acquisition, the resort continued to be managed and operated by the Hoshino Group. The primary purpose of the acquisition by Yuyuan was to attract Chinese guests to the Hoshino Ski resort owing to the increasing popularity of Japanese ice and snow spots. According to the 2018 tourism report published by Hokkaido Tourism Bureau, the number of Chinese tourists arriving in Hokkaido had been growing steadily. From 2016 to 2018, the ratio of Chinese tourists increased by 21.8%; their number was the highest, country-wise.

In this acquisition, Yuyuan took advantage of its comparative ownership advantage. There was no other competitor more familiar with Chinese tourists and closer to the Chinese tourism market than a Chinese tourism company. Yuyuan could use its resources in the home country, and its marketing experience to promote Hoshino Resort Tomamu in China. As a result, Yuyuan increased its presence in Japan through Tomamu, attracting more Chinese tourists, especially to Hokkaido.

Meanwhile, keeping Tomamu under the management of the Hoshino Group showed that Yuyuan respected Japanese management. The reason for Chinese tourists to purchase Japanese-made products was their high quality (Qiong & Chen, 2018). In other words, it was the cultural distance between the two countries that made the business attractive and successful for both sides. We also argue that the decision to retain the management of the target firm was a result of the acquirer becoming more experienced at addressing the liability of foreignness (LOF) since the main stakeholder of Yuyuan was Fosun Group, an investment group having vast experience in real estates and hotel acquisitions.

5.4 Hotel Takitei takeover by Tui

Chinese Zhejiang Hangzhou Tui Group (Tui) acquired Hotel Takitei in Izu-shi (Takitei) in 2016. The acquirer expected to "buy and operate local hotels in Japan, in order to provide better traveling products for Chinese tourists from the Yangtze River Delta" (Pinchain, 2016, p.1). Generally speaking, during a six-day tour in Honshu, Japan, Chinese group tourists would not leave Japan without spending at least one night in a hot spring hotel. With the acquisition, Tui successfully reduced business costs in outbound services for Chinese tourists. Tui, already a globalized tourism firm, found a target to provide more value to their (mainly) Chinese customers visiting Japan. The acquirer, located in China, provided professional outbound travel services for Chinese citizens as well as inbound travel services for foreign visitors to China. Takitei was a Japanese-style hot spring hotel with 40 rooms. The hotel was close to Shuzen temple, a must-go local scenic spot, and on the street not far from the hotel; there were kimono rental, bubble pool, 60-year-old coffee shops, century-old tofu shops, etc. It must be pointed out, however, that this acquisition was closer to the previously traditional Chinese cross-border acquisition style, i.e. buying old, reputable firms that had low profitability. Takitei had been in deficit for a while before takeover talks started.

Unlike Yuyuan, which left Hoshino under the management of the Hoshino group, Tui decided to control the operative hotel management completely. The company had knowledge of what Chinese tourists expected to experience in Japan, and so Takitei had to undergo certain rectifications to meet the needs of Chinese tourists. Chinese waiters were hired so that there would not be language communication problems. The new menu included the famous Japanese crab dishes. In addition, Takitei started to provide bicycle rides and other tourism projects in order to satisfy the needs of tourists, especially those from China. The comparative ownership advantage of Yuyan to have access to Chinese tourists made up for the deficit, even turning Takitei into a profitable business, and that too was accomplished just in the first two months after the takeover. Thanks to Tui's access to Chinese tourists, the occupancy rate of the hotel increased from less than half to almost 90%. Often (especially during peak seasons), there were more customers than Takitei could serve. The firm then decided to introduce these (mainly Chinese) customers to other local hotels. Subsequently, the acquirer began to build up a business network locally and was no longer perceived as an outsider in the Japanese hotel industry, especially at this tourism spot.

5.5 Sinewave takeover by iFLYTEK

iFLYTEK Co Ltd (iFLYTEK) acquired Japanese Sinewave in 2016 to become more globalized. The acquiring company was a Chinese information technology company established to focus on voice recognition software and voice-based internet / mobile products covering education, communication, music, and intelligent toy industries, etc.

Before the takeover, Sinewave was an information technology company in language education and developed related software for this industry (Sinewave, March 2017, p. 10).

Prior to the acquisition, iFLYTEK's recognition software was widely applied in China for conducting Chinese language proficiency tests, English listening and oral tests as part of the university entrance examinations (referred to as Gaokao), College English Test (CET) Band 4 / Band 6, and the Mandarin proficiency test (referred to as HSK). Through the Chinese investment, iFLYTEK opened up the Japanese market by making use of its technology and experience in language education as its comparative ownership advantage, thus increasing the range of choices available to the Japanese smart education market. In 2018, the Japanese computer-based English testing company (CBT), together with Sinewave, held a press conference at the University of Tokyo where CBT introduced the initial English proficiency test. At the conference, CBT showed that the AI automated score system innovated by Sineware was at a level of accuracy as manual scoring. In 2019, CBT introduced an AI-based automated scoring system in parallel with the usual manual scoring to improve the scoring accuracy and efficiency (Riben Xinxi Pingtai, 2018). It can be argued that by taking over Sinewave, iFLYTEK was no longer an outsider to the smart education business in Japan. Further, the Chinese acquirer could not have cooperated with CBT without the acquisition of Sinewave to enable use of its networks.

5.6 Watanabe takeover by QPG

Qingdao Publishing Group (QPG) acquired Japanese Watanabe Junichi Bungakukan (Watanabe) located in Sapporo, Hokkaido. The bungakukan (literature museum) operated under the Japanese firm Daio Paper Corporation (Daio) prior to the takeover in 2016. The Watanabe Museum of Literature was designed by the famous designer Ando Tadao, with three floors above ground and a basement with a total construction area of about 1,300 square meters. The Literature Museum, established in 1998, had a display of manuscripts, writings, and pre-natal materials of famous Japanese writers such as Watanabe Junichi. QPG described this cross-border acquisition as a strategy to obtain copyrights and to strengthen the publishing business of Japanese literature in China. Besides, there were recent tendencies to promote Chinese culture globally (Huaxia Jingwei, 2016). QPG had been focusing on publishing Japanese literature in the Chinese market for years and, through the takeover, QPG introduced Chinese literature into the Japanese market. The company was, thus, able to globalize their literary products through the takeover.

Moreover, there was high interest from the Japanese side to close the deal. In recent years, along with Watanabe Junichi's passing, the number of visitors to the bungakukan had been on the decline. In contrast, the popularity of his literature in China had risen. QPG took advantage of its marketing experience and business network in China to attract more Chinese tourists to the spot. As entrance to the museum had always been free

of charge, Daio probably sold the bungakukan to the Chinese acquirer to ease their financial burden. Since many of Chinese acquirers are generally cash-rich, it could be argued that, at least in the short run, they would not emphasize profits as their ultimate goal.

6. Discussion

On the tenets of the ownership-location and internalization strategy by Dunning, we validated and empirically examined Chinese acquirers' strategic motives to acquire Japanese firms. Our findings indicated that their strategy had switched from a previously solely resource-driven approach to a recently more balanced approach that included more market-driven acquisitions, thereby validating our *Hypothesis 1.* In case studies, it was observed that Chinese acquirers enjoyed comparative ownership advantages and improved the performance of their Japanese targets. An examination of the details of Chinese acquirers' comparative ownership advantages revealed that Chinese firms provided funds, global networking, marketing, and managerial knowledge – and in one case, even advanced technology. Hence comparative ownership advantages are no longer solely traditional resource-driven advantages, but are nowadays also market-driven advantages.

Several observations were noted. First, the target industries of market-driven approaches were diversified. In our sample, the market-driven acquisitions covered target industries in manufacturing, business services, high-tech, retail, and tourism. Notably, we observed that the tourism industry is a new rising star of Chinese market-driven acquisitions in Japan. Many Chinese firms seem to promote Japanese tourist spots for Chinese tourists using resources and services. We predict that in future there will be more Chinese acquisitions in Japan, especially in industries where Chinese customers are the focal point, such as hotels or shopping centers. Similarly, Chinese real estate agencies and individual Chinese investors would also view Japanese targets as being attractive.

Second, the change in Chinese acquirers' strategic motive shows that these firms are getting more experienced in cross-border acquisitions, and also, as they begin to understand better the particularities of the Japanese market, they become more long-term oriented. Chinese firms seem to have learned how to get into a new market (e.g. Japan) to build business networks in order to ease their liability of foreignness and to make use of their comparative ownership advantages. In early research about resource-driven acquisitions, Chinese acquirers took technology or brand back to their home country, generating profit by using advantages of lower labor cost (at home) in China, natural resources, and a large and relatively underdeveloped capital market (in China). However, many Chinese firms have realized that labor cost also in China will increase. For instance, it is more profitable for a Shanghai travel agency to send their Chinese clients to Japan than to other regions in China. In order to realize stable long-term profits, Chinese firms, therefore, have started to optimize their global network by transferring operational and managerial knowledge to build global value chains.

Third, some Chinese acquirers enjoy their comparative ownership advantages through superior knowledge-based assets. As the high-tech industry in China is developing rapidly, iFLYTEK acquiring Sinewave, for instance, shows that the Chinese acquirer can be superior in providing professional technology. Other examples are hotel acquisitions. Chinese acquirers often have better access to Chinese tourists, i.e. they are closer to the target tourist market which is located in China rather than in Japan. Furthermore, with Chinese acquirers' global resources in the background, at least some of them are now fostering their targets to become more globalized after the takeover. Japanese firms should no longer be afraid of being taken over by Chinese firms. Unlike takeover investments many years ago, there is no doubt that Chinese acquirers nowadays are seeking a win-win situation, seeking to gain entry into the Japanese market.

Lastly, despite the fact that many Chinese acquisitions are becoming market-driven, resource-driven acquisitions may still be the preferred choice for some industries. For example, in our data analysis, we could not detect any recent market-driven acquisition in the pharmaceutical industry. It is not difficult to understand the mechanism behind this phenomenon. China's core advanced technologies in drug R&D are still lagging behind those of other developed countries such as the US or Japan. In a previous call by the Chinese government to forge so-called strategic partnerships, some Chinese pharmaceutical firms have aligned with other foreign firms from developed countries. However, these other firms are (understandably) not interested in sharing their core technologies with Chinese firms that want to gain core technologies fast and seemingly effortlessly through cross-border mergers and acquisitions. Thus, we are still expecting more acquisitions in industries where Chinese firms themselves have not yet mastered core technologies.

7. Concluding Observations

On the grounds of the ownership-location and internalization theory, this study shows preliminary evidence of a change of strategic motive by Chinese acquirers in Japan. For this, we conducted Fisher's exact test on 39 cross-border acquisitions made by Chinese listed companies in Japan. The results show that Chinese acquirers' strategic motives are no longer solely resource-driven; they have also become market-driven in their approach recently. We have examined six market-driven acquisitions by providing background in the form of small case studies. Notably, the tourism industry is becoming a popular way for Chinese acquirers to get into the Japanese hotel and recreational sector. In future, it seems likely that there will be more Chinese acquisitions in service industries to cater to Chinese tourists in Japan. The change in the strategic motive also shows that Chinese acquirers have acquired greater acumen in cross-border acquisitions after many years of experience. Most investment these days are long-term orientated. In our small case studies, we note that Chinese acquirers have led their Japanese targets to productivity improvement and wider globalization.

Our study has some managerial implications for both Chinese acquirers and Japanese targets. First, Japanese targets should no longer resist Chinese acquisitions as long as they are market-driven and friendly in their intent. With a plenitude of resources offered by many Chinese firms, we expect Japanese targets to be better off in the long run. Second, since Chinese acquirers are still reluctant to take over cross-border firms, they should consider negotiating with their targets about the organizational structure after the takeover. Third, Chinese firms which attempt pure resource-driven acquisitions should develop a long-term target strategy and consider the necessity of an integrated strategy that combines both resource-driven and market-driven approaches.

Our study has several limitations that can be addressed in future research. First, we looked only at Chinese acquisitions of Japanese target firms. Future studies should investigate whether strategic motives change when targets are located in other countries. Second, our data source only contains Chinese listed-companies, and we have to contend with a small sample size which prevents us from categorizing the companies as state-controlled or private firms.

Furthermore, Chinese medium and small-sized companies are becoming active players in Chinese outward FDI. It would be interesting to study the strategic motives of such companies. Also, some acquisitions which we classified as resource-driven had at least some market-driven aspects and – from a different mindset – could be classified as market-driven.

Finally, the cut-off of our Fisher test was the year 2013, as we saw many Chinese firms behaving in a different pattern from this point in time. Taking a different year for grouping our sample might affect the results.

In spite of all these limitations, we hope that this study will serve as a first step towards discovering and understanding much more about Chinese investment behavior. It will most likely become an important topic in future business research as Chinese investments are increasing worldwide.

References

1. Alvstam, C., Dolles, H., & Ström, P. (2014). *Asian Inward and Outward FDI: New Challenges in the Global Economy.* Houndmills, Basingstoke, UK: Palgrave Macmillan.

2. Anderson, J., & Sutherland, D. (2015). Entry mode and emerging market MNEs: An analysis of Chinese greenfield and acquisition FDI in the United States. *Research in International Business and Finance, 35,* 88–103.

3. Arnold, J. M., & Javorcik, B. S. (2005). *Gifted kids or pushy parents? Foreign acquisitions and plant performance in Indonesia*. The World Bank. Retrieved from https://openknowledge.worldbank.org/bitstream/handle/10986/8935/wps3597.pdf

4. Bertrand, O., & Zitouna, H. (2008). Domestic versus cross-border acquisitions: which impact on the target firms' performance? *Applied economics, 40*(17), 2221–2238.

5. Boateng, A., Wang, Q., & Yang, T, Y. (2008). Cross-border M&As by Chinese firms: An analysis of strategic motives and performance. *Thunderbird International Business Review, 50*(4), 259–270.

6. Cai, Y., & Sevilir, M. (2012). Board connections and M&A transactions. *Journal of Financial Economics, 103*(2), 327–349.

7. Caves, R.E. (1971). International corporations: The industrial economics of foreign investment. *Economica, 38*(149), 1–27.

8. Chakrabarti, R., Gupta-Mukherjee, S., & Jayaraman, N. (2009). Mars–Venus marriages: Culture and cross-border M&A. *Journal of International Business Studies, 40*(2), 216–236.

9. Chen, Y. Y., & Young, M. N. (2010). Cross-border mergers and acquisitions by Chinese listed companies: A principal–principal perspective. *Asia Pacific Journal of Management, 27*(3), 523–539.

10. Deng, P. (2009) Why do Chinese firms tend to acquire strategic assets in international expansion? *Journal of World Business, 44*(1), 74–84.

11. Dongxiang. (2009). *2008 Annual Report*. Retrieved from CNINFO Database http://static.cninfo.com.cn/finalpage/2009-03-26/50582423.PDF

12. Dunning, J. H. (1980). Toward an eclectic theory of international production: Some empirical tests. *Journal of International Business Studies, 11*(1), 9–31.

13. Dunning, J. H., Narula, R., & van Hoesel, R. (1996). *Explaining the 'new' wave of outward FDI from developing countries: the case of Taiwan and Korea*. (MERIT Research Memoranda; No. 009). Maastricht: MERIT, Maastricht Economic Research Institute on Innovation and Technology.

14. Edifier. (2011). *Shenzhen EDIFIER Technology Co., Ltd. Acquisition Announcement.* Retrieved from CNINFO Database on Dec 7. http://static.cninfo.com.cn/finalpage/2011-12-09/60302693.PDF

15. Essence Securities. (2009). *Control the ownership risk of Laox: Study of Akibahara.* Retrieved from Choice Database.

16. Fosun. (2014, Mar 26). *2014 Annual Results Announcement*. Retrieved from CNINFO Database http://static.cninfo.com.cn/finalpage/2015-03-26/1200744615.PDF

17. Fuxing. (2015, Mar 25). *Fuxing Group 2014 Annual Report*. Retrieved from CNINFO Database http://static.cninfo.com.cn/finalpage/2015-03-26/1200744615.PDF

18. Ghoshal, S. (1987). Global strategy: An organizing framework. *Strategic Management Journal, 8*(5), 425–440.

19. Gubbi, S. R., Aulakh, P. S., Ray, S., Sarkar, M. B., & Chittoor, R. (2010). Do international acquisitions by emerging-economy firms create shareholder value? The case of Indian firms. *Journal of International Business Studies, 41*(3), 397–418.

20. Haier. (2011). *Announcement on the signing of a memorandum between Haier Group and Japan Sanyo Electric Co., Ltd*. Retrieved from CNINFO Database, July 28, http://static.cninfo.com.cn/finalpage/2012-03-31/60774163.PDF

21. Helpman, E., Melitz, M. J., & Yeaple, S. R. (2004). Export versus FDI with heterogeneous firms. *American Economic Review, 94*(1), 300–316.

22. Huaxia Jingwei. (2016). *Qingdao Chuban Jituan Zairi Jieshou Watanabe Wenxueguan.* Retrieved from http://www.huaxia.com/zhwh/whxx/2016/09/5015908.html

23. Hymer, S. H. (1976). *International operations of national firms*. MIT press.

24. Insigma Technology. (2011). *2010 Annual General Meeting of Shareholders. June 14.* Retrieved from http://sj.cfi.cn/newspage.aspx?id=20110614001581&client=phone

25. Kirby, W. C. (2019). *Perspectives on Chinese Investment in the United States. Testimony for the U.S.-China Economic and Security Review Commission*. Washington, D. C. Internet: https://www.uscc.gov/sites/default/files/USCC%20Written%20Testimony_William%20Kirby.pdf, Febr. 28th. Download, Jan. 17th 2020.

26. Kumar, N. (2009). How emerging giants are rewriting the rules of M&A. Harvard *Business Review, 87*(5), 115.

27. Larsson, R., & Finkelstein, S. (1999) Integrating strategic, organizational, and human resource perspectives on mergers and acquisitions: A case survey of synergy realization. *Organization Science, 10*(1), 11–26.

28. Li, X., Kuang, Y., & Zhang, L. (2019). Misperceptions of Chinese Investments in Canada and Their Correction: Evidence from a Survey Experiment. *Canadian Journal of Political Science, 52, 2*, 1–18.

29. Li, J., Li, P., & Wang, B. (2016). Do cross-border acquisitions create value? Evidence from overseas acquisitions by Chinese firms. *International Business Review*, *25*(2), 471–483.

30. Luo, Y., & Rui, H. (2009). An ambidexterity perspective toward multinational enterprises from emerging economies. *Academy of Management Perspectives*, *23*(4), 49–70.

31. Neary, J. P. (2007). Cross-border mergers as instruments of comparative advantage. *The Review of Economic Studies*, *74*(4), 1229–1257.

32. Pinchain. (2016). *TUI Group: 50 Million Acquiring Spring Hotel Located in Ito.* Retrieved from http://www.pinchain.com/article/71524

33. Qiong, Z., & Chen, D. (2018). The Study on the Determinants of International Tourism Demand: The Case of Chinese Outbound Tourism to Japan. In *5th International Conference on Business, Economics and Management (BUSEM 2018), Francis Academic Press, UK.*

34. Riben Xinxi Pingtai. (2018). *Riben Yingyu Jianding Xiehui Darou Sinewave IFKYTEK Zudong Dafen Xitong*. Retrieved from http://www.keguanjp.com/kgjp_qiye/kgjp_qy_zhrq/pt20181031060002.html

35. Rienda, L., Claver, E., Quer, D. (2013) The internationalisation of Indian multinationals: determinants of expansion through acquisitions. *Journal of Asia Pacific Economy, 18*(1), 115–132.

36. Rottig, D., & de Oliveira, R. T. (2019). International expansion of Chinese emerging market multinational corporations to developed markets: a qualitative analysis of post-acquisition and integration strategies. In *Chinese Acquisitions in Developed Countries* (pp. 37–53). Cham: Springer, Cham.

37. Rugman, A. M., & Li, J. (2007). Will China's multinationals succeed globally or regionally?. *European Management Journal*, *25*(5), 333–343.

38. Rui, H., Yip, G.S. (2008) Foreign acquisitions by Chinese firms: A strategic intent perspective. *Journal of World Business, 43*(2), 213–226.

39. Schneider, B. Z. (2019). Is foreignness a liability for Chinese MNEs in the USA? *Journal for Global Business Advancement, 12*(4), 476–496.

40. Schweiger, D.M., & Very, P. (2003) Creating value through merger and acquisition integration (Volume 2). In C. Cooper, A. Gregory (Eds.) *Advances in mergers and acquisitions* (pp. 1–26). Oxford: Elsevier Science.

41. Sinewave. (2017, Mar 21). *2016 Annual Financial Report.* Retrieved from CNINFO Database http://www.keguanjp.com/kgjp_qiye/kgjp_qy_zhrq/pt20181031060002.html

42. Stroem, P., & Nakamura, H. R. (2014). Chinese acquiring Japanese: Motives and patterns of Chinese outward M&A to Japan. *Asia Pacific Management Review, 19*(3), 299.

43. Sun, S. L., Peng, M. W., Ren, B., & Yan, D. (2012). A comparative ownership advantage framework for cross-border M&As: The rise of Chinese and Indian MNEs. *Journal of World Business*, *47*(1), 4–16.

44. Talkweb. (2015, Aug 6). *2015 Semi-annual Report Summary*. Retrieved from CNINFO Database, http://static.cninfo.com.cn/finalpage/2015-08-06/1201397383.PDF.

45. Tu, C. (2019). Chinese Outbound Investments. In *Chinese FDI in the EU and the US* (pp. 1–13). Singapore: Palgrave Macmillan.

46. Urbšienė, L., Nemunaitytė, V., & Zatulinas, A. (2015). Comparison of premiums of Chinese and European companies in mergers and acquisitions in Europe. *Organizations and Markets in Emerging Economies*, *6*(2), 67–102.

47. Wan, F., Williamson, P., & Pandit, N. R. (2020). MNE liability of foreignness versus local firm-specific advantages: The case of the Chinese management software industry. *International Business Review*, *29*(1), 101623.

48. Wang, Y., & Zhao, L. (2017). Outward foreign direct investment from China: Recent trend and development. *The Chinese Economy*, *50*(5), 356–365.

49. Yuyuan Group. (2019, Mar 22). *Yuyuan Group Lvyou Shangcheng Ltd. 2018 Annual Financial Report*. Retrieved from CNINFO Database http://static.cninfo.com.cn/finalpage/2019-03-26/1205937465.PDF

50. Zhang, Y. B., Lin, M. C., Nonaka, A., & Beom, K. (2005). Harmony, hierarchy and conservatism: A cross-cultural comparison of Confucian values in China, Korea, Japan, and Taiwan. *Communication Research Reports*, *22*(2), 107–115.

51. Zou, H., & Ghauri, P. N. (2008). Learning through international acquisitions: The process of knowledge acquisition in China. *Management International Review*, *48*(2), 207.

Attachment 1. Timing and count of investments

Timing	Count	Resource-driven	Market-driven	Total
Earlier investments (2002–2012)	Count	26	2	28
☐	Expected Count	22.3	5.7	28
Later investments (2013–2016)	Count	5	6	11
☐	Expected Count	8.7	2.3	11
Total	Count	31	8	39

Attachment 2. Chi-Square test, including Fisher`s Exact test

Chi-Square Tests	Value	df	Asymptotic Significance (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	10.883a	1	0.001	☐	☐
Continuity Correction	8.17	1	0.004	☐	☐
Likelihood Ratio	10.011	1	0.002	☐	☐
Fisher‘s Exact Test	☐	☐	☐	0.003	0.003