



Subo Ge

# Chinese Companies in Germany

Internationalization strategies, Management  
models, Industrial relations



Südwestdeutscher Verlag  
für Hochschulschriften

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# 1. Introduction

Since the late 1980s, globalization has been increasing at an accelerating rate. The global economy, with its worldwide market place for goods, services, capital and skilled labors, has become a serious subject of study. The continued worldwide integration in fields such as politics, economics and culture cannot be reversed. In this respect multinational companies (MNCs) play a particularly important role. It is undeniable that the activities of the many MNCs, with their international focus, promote the progress of globalization to a great extent and impact in a variety of areas of human endeavor.

To a large degree, MNCs are both an economic actor and a *carrier* or *plant*, transplanting or exchanging cultural products between different societies. It is now commonly acknowledged that the business expansion of MNCs into another country not only brings with a massive influx of capital and skilled labor, but also a transfer of their culture and work habits into the host country at the same time. For example, the internationalization of Japanese companies resulted in intensive interest and study of the Japanese lean production model. Another example worthy of mention is the shareholding model of American companies, which remains a mainstream model for company structure worldwide. The American capitalist system has been for a long time the model for the market oriented model<sup>1</sup>. In addition, MNCs also bring their work attitude

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<sup>1</sup> Another economic model is the market coordinated model, a typical example of which is the German economic system.

and approach to management, team work, and so on. However, to achieve success in business, MNCs must pay attention to the host culture and adapt to cultural norms in host countries. If necessary, they must be willing to partially adjust their way of doing business. On the other side of the cultural divide, residents of host countries may have mixed feelings towards the foreign 'strangers' because of the cultural context in which they are operating. They may hold a positive attitude toward them, learn from them, work for them, and adjust themselves to them. Their feelings may also be interspersed with negative attitudes derived from their cultural or ideological background.

Since the founding of the People's Republic of China in 1949, the political situation in the world, especially the "Cold War", served to isolate Chinese society from the capitalist West. Communication between them was formal and superficial, and overlay a great deal of misunderstanding and hostility. At the beginning of China's economic reform program in 1978, it opened its doors and presented a fresh face to the world. It was a complex picture with cultural, political and economic aspects, but generally most observers at the time focused on economic reform initiatives, as it was unclear where they would end up. In the following 30 years, as China became more and more integrated into the world. The interaction with the outside followed a number of channels and affected people's lives in a variety of ways. The actors in this arena were governmental and non-governmental organizations, economic entities such as firms, and individuals, such as tourists and students abroad. Among these actors, the research into the cultural effects

of Chinese MNCs abroad was seen as less important and was seldom a subject of discussion, especially in industrialized countries. There are plenty of papers written about the investment of foreign MNCs in China since China opened its doors to foreign investment and also about the Chinese companies founded by overseas Chinese in the newly-industrializing countries, such as those in south-east Asia. In the industrialized countries of Europe and North America, Chinese companies already have a long history of investment, starting with the beginning of economic reform in China. But for long time investment activities focused on establishing trade offices rather than founding production facilities.

The situation has changed drastically in the last ten years. Take Germany as an example. The preferred mode of investment in Germany of Chinese MNCs before 2000 was mainly establishing trade offices here. There were almost no Chinese subsidiaries that turned a profit here. Since 2000 many Chinese MNCs have expanded their production in Germany, employing a variety of models: mergers and acquisition, organic expansion, and joint-venture. Until now, some have failed, some have succeeded, and some simply continue to exist without being able to be characterized as either success or failure. This paper focuses on this group of the Chinese MNCs which have internationalized their operations in Germany as “producers”.

In this paper I examine the motivation of Chinese MNCs in pursuing expansion internationally. Also, I try to discover the strategy they pursue to achieve their goals. Moreover, this study looks at the cultural clash between the Chinese MNCs and their subsidiar-

ies in Germany. The main questions my research seeks to answer are: What has the Chinese headquarters brought to the subsidiary? If the subsidiary has been taken over, what changed after it was acquired? Which difficulties did the Chinese headquarters experience or are experiencing with by its business expansion in Germany? Which reciprocal influences were there between the Chinese head office and its subsidiary?

Figure 1: Four types of research on internationalization of MNCs

Home Country	Advanced	<div> <div>Type 2</div> <div>MODERN</div> <div>(e.g., US → China, EU → India)</div> </div>	<div> <div>Type 1</div> <div>TRADITIONAL</div> <div>(e.g., US → EU, JP → US)</div> </div>
	Developing	<div> <div>Type 4</div> <div>EXPANSIONARY</div> <div>(e.g., China → Brazil, India → China)</div> </div>	<div> <div>Type 3</div> <div>CATCH-UP</div> <div>(e.g., China → US, India → EU)</div> </div>
		Developing	Advanced
		Host Country	

Source: adapted from the matrix of R&D internationalization by Zedtwitz (2005).

Chinese companies generally follow a “catch-up” strategy (s. F.1). This is what distinguishes Chinese MNCs compared to MNCs from industrialized countries who enjoy advantages developed over many years in the domestic market such as extensive knowhow, sophisticated technology, a recognized brand, etc. before begin-

ning their international expansion, and seek to use those advantages to maximize profit in the host country. Chinese companies, on the other hand, come from a still industrializing country only a few years along the road transitioning from a planned economy to a market economy, and therefore face a big gap that needs to be bridged to catch up with western MNCs. To do that, Chinese companies consider globalizing their operations to obtain advantages that others have gotten from their domestic markets. In Figure 1, four types of research on internationalization of MNCs are presented. Types 3 and 4 are the new focus of research.

We know that Chinese MNCs operating in Europe have generally pursued the expansionary and catch-up strategies. I assume that almost all Chinese MNCs owning productive plant here make use of the catch-up strategy. MNCs from rapidly emerging economies, such as China and India, serve as research subjects for type 3 development. In this paper, I investigate the organizational level of Chinese MNCs which expanded into Germany. Many scholars have previously examined the internationalization strategy of Chinese companies, but few have delved deeply into the cultural interaction and organizational influences between Chinese companies and their foreign subsidiaries. Considering the research subjects chosen by scholars thus far, this paper can be considered a ground-breaking work touching a new area.

## **2. Conceptual frame of reference for research and methodology**

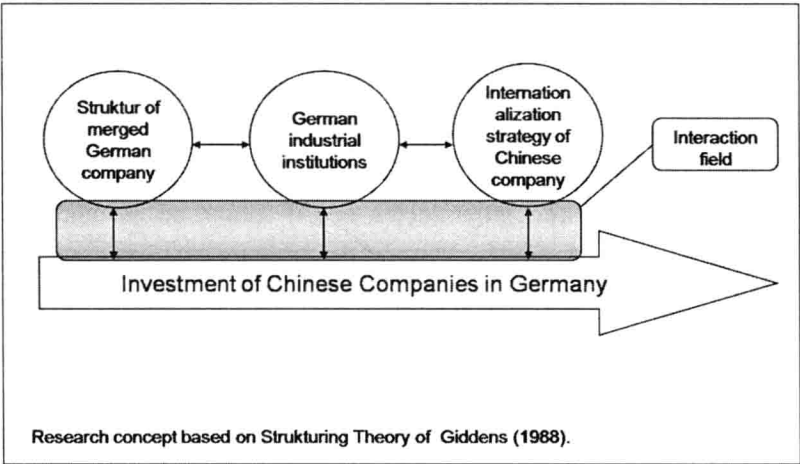
### **2.1 Conceptual frame of reference for research**

Since Chinese companies have only a short history—not longer than 10 years—of investing in Germany through merging with German companies or establishing a productive plant themselves, a deep and systematic investigation of this research sphere cannot be carried out. The main reasons for this are the low level of activity of Chinese companies and the high possibility of structural changes in the near future for these firms. Therefore, this paper will only try to outline a rough picture of their activities and their structure.

For this reason, I will apply the “duality of structure” theory of Giddens (1988) as a base to draft the conceptual frame of this paper (s. F.2). Giddens (1988, p. 77) summarizes the “structure” as “recursively organized quantity of regulations and resources, is outside of space and time, except during its realization and coordination as reminder traces, and is characterized though an ‘absence of subject’”. Giddens’ “duality of structure” demonstrates that on the one hand, the activities of the actor are limited by the given structures in society, and on the other hand, the activities influence and reproduce the structures of society. Applying this theory as a basic concept for investigating the internationalization of the MNCs, we can observe tension caused by the interaction between MNCs who entry into a market as a ‘stranger’ and the existing structures

in the host country. According to Giddens' theory, MNCs seen as strangers will be restricted by the existing structures in the host country. Then, as they continue their activities there, the existing structures can be reorganized and reproduced. In another words, existing structures can be changed, incrementally and gradually, through the influence of the 'strangers'.

Figure 2: Chinese companies in Germany and interaction with German industrial society



*Social system as an existing structure*

For a MNC, as a 'stranger' in a foreign market, the social system means the entire existing structure. Here, there are three levels of the system which must be discussed when examining their direct influence on the 'stranger'—the macro level, the organizational level and the micro level. The *macro level* refers to the body of



regulations and the investment environment in the host country, including the law-making structure, the government system, the banking system, the labor market, etc. The *organizational level* mostly refers to the typical structural characteristics of a company in the host country. The structural framework of this level can be studied via a management model, an examination of co-determination political structures, the production system, etc. The *micro level* is associated with individual work attitudes, such as work moral, team work, etc.

For MNCs who chose the tools of merger and acquisition to entry into the host country market, the merged companies could be seen in the host country as an existing structure with established organizational structure, management model, labor politics, and so on.

### *MNCs as a “stranger” to the existing structure*

Every MNC entering a host country market begins by being seen as a cultural ‘stranger’, even when it had previous business contacts or knowledge about the host country. It has to have direct and very close interaction with a new society and a different culture. In this strange environment, its economic activities are restricted by the norms of the host society. The MNC must confront the cultural divergences and overcome them to achieve its goal of internationalizing.

There are two types of cultural differences, and the ‘stranger’ should understand the difference. Some are “touchable” and others are “untouchable”. The stranger must be aware of “untoucha-