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Chinese Companies in Germany

—Internationalization Strategies, Management Models and
Industrial Relations

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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 share-holding 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 model¹. In addition, MNCs also bring their work attitude 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

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

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 subsidiaries 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?

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 beginning 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.

Figure 1: Four types of research on internationalization of MNCs

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

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

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 and research goals

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.

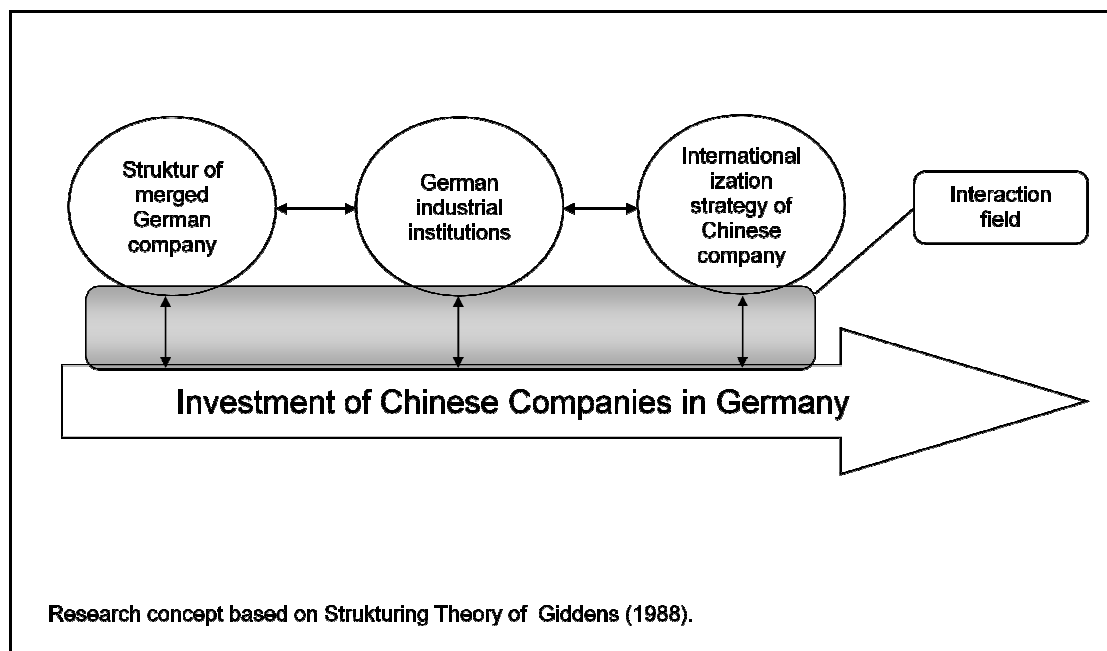
For this reason, I will apply the “duality of structure” theory of Giddens (1988) as a base to draft the conceptual frame of this paper (s. F.2). Giddens (1988, p. 77) summarizes the “structure” as “recursively organized quantity of regulations and resources, is outside of space and time, except during 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’.

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 struc-

tural 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.

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



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 “untouchable” regulations such as laws, simply in

order to avoid fatal mistakes. The “touchable” cultural differences are for example the management system and the organizational structure. They can be changed and restructured. But in light of business goals the MCNs have to decide to leave the “touchable” things alone or not touch them.

However, it may be impossible for the ‘stranger’ to avoid challenging the existing structures of the host country, especially if long-term development is planned. Such long-term economic activity normally demands adjustments to established procedures, even though the ‘stranger’ might not make the request directly. In the long term, the host country can hardly ignore such needed structural adjustments. The question is when and to what degree changes will be made. These adjustments could relate to various fields, such as the institutional reconfiguration of government regulations to make the local investment climate more attractive. Local workers who are employed by the ‘stranger’ in the host country might also need to adjust their feelings about working for a foreign boss. If a local company has been acquired by a foreign company, usually such a case can cause psychological unease among the workers in the acquired company. This may be caused by cultural unfamiliarity. What is of interest is how both sides work together to change perceptions about the change in ownership and build a stable work climate. Additionally the adjustment to a different management style also causes tension for local workers, including local managers.

Internationalization strategy of MNCs as an existing structure

As a rational economical actor, the activities of the MNC in the host country have to stay close to its main goal, which is called “internationalization strategy”. This strategy forms the basic frame for the activities of the MNC’s foreign subsidiaries. Whatever freedom of decision-making has been delegated to the managers of the subsidiary by the parent company, their actions have to conform to the boundaries established to achieve the internationalization strategy. This strategy usually consists of the MNC’s investment goals and its long-term business plan for the host country.

It is worth remembering that strategies and plans can be adjusted during the development of the subsidiary in the host country. With ongoing development, no matter whether good performances are being turned in or mistakes are being made, the internationalization strategy can be changed or further developed to take advantage of the accumulated experience from the international-

ization process and the search for new business opportunities. In another words, the MNC's internationalization strategy is a work in progress and can be developed as need be.

Research points covered in this paper

According to the conceptual framework for this research, German society can be seen as the existing structure for the Chinese company—the 'stranger'. German capitalism is considered a model for coordinated market economies, as per the VoC (varieties of capitalism) paradigm (Hall and Soskice, 2001). In a coordinated market economy, company managers act in a dense network linking a group of diverse stakeholders, such as employees, banks, customers, and suppliers. German managers prefer consensus decision making and share a lot of information with the other stakeholders. German industrial relations are an important factor in this model and institutions like trade unions and work councils play the important role at the industry-wide level and at the plant level respectively. Furthermore, a body of contract laws has developed as a significant institutional complementary to this business system.

For Chinese companies who as 'strangers' internationalize in Germany, the German economy is a foreign structure, not only the internal company business system but also the social institutions. In studying the wide body of research on management models, industrial relations and social cultures, large differences can be seen between the German and Chinese economies and German and Chinese companies. The activities of Chinese companies in Germany form an interesting research subject for this paper. The existing structure in Germany, both internally and externally from the company, creates differences and therefore difficulties for the Chinese 'stranger'. Seen through the prism of Giddens' theory, the 'stranger' should change his old orientation to adapt the new business environment, but can also affect the given structure in Germany to some extent.

When looking at the VoC approach and considering earlier research on the internationalization of Japanese companies in Germany (Merz and Park, 1986; Park, Jürgens and Merz, 1985), the main research subjects have been the management model, the control structure between the parent company and its subsidiary, the production system and industrial relations. In this paper I have selected three topics as research subjects. The first one is the internationalization strategy of the Chinese companies, with the aim of discovering the rea-

soning behind the decision of Chinese companies to invest in Germany. The following two research topics I will examine refer to the interaction between Chinese companies and the existing structures in Germany: management style and industrial relations. In these areas I will look at the initial efforts of Chinese companies to overcome the difficulties they face from the 'strange' Germany economy.

I have not chosen the production system and control structure as part of the main research topics of this paper. The main reason for that is a difficulty in finding source material. Simply put, in researching Chinese companies, I haven't found much literature addressing the control structure or organizational relationship of Chinese companies with their overseas subsidiaries, especially those located in Europe. Also the research lacks detail on the typical Chinese production system. The reason for a lack of research on the control structure could be that Chinese companies have not have a long history of having productive subsidiaries in industrialized countries. The dearth of research into the production system in China might be a result of the fact that the Chinese production model has not fully developed. In a final point, this study found no empirical evidence of a 'clash' in "production systems" between Chinese companies and their German subsidiaries. Instead there is a lot of evidence of production technology cooperation between them. Therefore, in this paper I will not study the differences in production systems and control structures in both countries through an examination of the literature (which for the most part does not exist), but rather collect the corresponding information about technology cooperation and the control structure between the Chinese companies and their German subsidiaries in empirical studies, sort out differences and characteristics, and then discuss them together with the other three research subjects in the last chapter.

When seeking the root cause of differences between China and Germany, differences reflected between Chinese companies and German companies, it can be found that these differences are developed from the particular cultural context in both countries. Industrial relations are normally categorized as institutional infrastructure and are not seen as a cultural issue, if adopting the narrow definition of culture. However, if we look closely at the origin of institutions in a social system, the roots of the institutions cannot be separated totally from the cultural norms in the society.

2.2 Research methodology and questions

2.2.1 Methods of research

I will primarily adopt two methods of research—extensive study of subject literature and explorative empirical case studies. Additionally reporting to be found on the Internet is also a source of obtaining empirical information.

Extensive study of subject literature

Almost half of this paper consists of detailed analyses of the published work on this subject. Throughout the entire research project I have continually sought and analyzed an extensive range of work on the selected research topics.

Most studies of the management and organization of Chinese companies were only published after 1984. The reason for this might be that research in this field only became possible after China's reform efforts opened it to the world in the mid-1980s (Tsui and Lau, 2002). The subjects of this research are state-owned companies (SCs), private-owned companies (PCs) and foreign investor-owned companies in mainland China, and Chinese companies in south-east Asia, whose owners are overseas Chinese. These studies concentrate on issues such as the impact of reform on SCs, internationalization strategy, management style, organizational characteristics, business culture and cross-cultural comparison, and industrial relations. Today, more and more Chinese companies go overseas and establish operations. Large numbers of them have employed host country nationals or been handed over completely with local employees, if they merged with a local business. In such circumstances, a "cultural clash" inevitably happens and influences the organizational coordination between headquarters and subsidiary. Until now there has been no systematic study about this issue and only a brief mention of it by a few scholars, for example in *Haier's* case study of a Chinese MNC appliance manufacturer; Liu and Li (2002) have also discussed its internationalization strategy and described its cultural interaction with its American subsidiary with a few words.

In the last five years in Germany, the subject of the internationalization of Chinese companies has become more popular. During this time, most studies of

this subject in Germany were written by scholars or correspondents². They generally can be categorized into two types—scientific papers and newspaper articles. Most of the scientific papers, generally speaking, present the statistics on Chinese direct investment in Germany and analyze the internationalization strategy of the Chinese companies and their motivations in investing in Germany. They also discuss the difficulties Chinese companies face in Germany by means of case studies or interviews, for example, as in Sohm, Linke, and Klossek (2009), or Schüler-Zhou and Schüller (2008); or provide analysis based on quantitative questionnaires (cf. Tirpitz, Groll and Ghane, 2011). Some have examined the entry of Chinese companies into the German market using quantitative empirical research (cf. Tirpitz, Groll and Ghane, 2011; Miroslawski, 2008). Miroslawski (2008) has also employed the cultural context in his dissertation to explain the logic behind the choice of entry model by Chinese companies. There are also a few studies examining the internationalization of Chinese companies in Europe, rather than Germany alone, (Nicolaus and Thomson, 2008; Filippov and Zhang, 2009) or in individual federal states in Germany, for instance, Hamburg (a study by HWF—Hamburgische Gesellschaft für Wirtschaftsförderung mbH), Hessen (Wang, 2008).

There has also been a lot of reporting on the situation of Chinese companies in Germany³. They briefly report on the dynamism and motivation of Chinese companies investing in Germany, their influence on German industry, the re-

² I haven't found accurate statistics about published studies on Chinese investment in Germany. This statement is based on my experience researching the available literature on the subject, most of which was written since 2005.

³ For example:

Germany Trade & Invest "China setzt auf 'Made in Germany'".

http://www.b4bmv.de/Mittelstand/Regionale-Wirtschaftsnachrichten/Suedwestmecklenburg/arid,59260_puid,14_pageid,674.html

Lu, H. 2009: "Chinese firms seek to invest in Europe". China Daily.

http://www.chinadaily.com.cn/business/2009-03/04/content_7532592.htm.

Ewing, J. und Roberts, D. 2005: "Chinese are coming... to Germany". Businessweek.

http://www.businessweek.com/magazine/content/05_08/b3921070_mz054.htm.

Fischermann, T., Köckritz, A. and Sieren, F. 2010. "Peking kauft Firmen und Infrastruktur in aller Welt. Jetzt öffnet sich Europa". Zeit Online.

<http://www80.sevenval-fit.com/zeit/2010/29/China-Europa> (accessed at July 16, 2010).

Sueddeutsche.de. 2011. "Chinas Firmen suchen Deutsche Angestellte".

<http://www.sueddeutsche.de/karriere/neue-stellen-chinas-firmen-suchen-deutsche-angestellte-1.1048024> (accessed at Jan. 20, 2011).

Fehr, M. 2009. "Wie chinesische Firmen ihr Deutschland-Geschäft manage".

<http://www.wiwo.de/unternehmen-maerkte/wie-chinesische-firmen-ihr-deutschland-gesch-ft-managen-410462/> (accessed at Oct. 14, 2009).

action of German society and the difficulties they face in the future. In the literature there is almost no study that has systematically investigated the organizational and cultural interaction between Chinese parent companies and their German subsidiaries. Only a few studies have touched the subject, such as the work of Schüler-Zhou and Schüller (2008), Sohm, Linke and Klossek (2009), and Fehr (2009). Miroslawski (2008) has adopted the term 'culture' as a research approach, but his project stays focused on the market entry of the German subsidiary, and doesn't extend to the phase following set-up.

Explorative empirical case studies

In this project, the qualitative interview is employed as a research method. The interviews are supported with a set of questions framed according to the research topics and based on a detailed analysis of the body of research on the subject. The questions concern the personal biography of the interviewees, the company history and the firm's strategic situation—market position, personnel structure, internationalization strategy, and initiatives in the areas of management, command and control, production technology cooperation and industrial relations. Finally, the opinions of interviewees were solicited about the future coordination between the parent company and subsidiary. I had access to three companies. In the first case study, I interviewed four persons in two rounds. In the first round I interviewed four persons using prepared questions and wrote a first version of my findings. I then interviewed two of the four interviewees again—the German chief and the chief of the work council in the German subsidiary—in a second round and gathered complementary information. In the first case study I partly varied the interview questions. In one sense the first case study could be considered a pilot case study. In the second case I interviewed just the manager of the German subsidiary. In the last case study, three persons from the German subsidiary took part in the study—the German chief and two members of the work council. Generally, I did not set the times and the subjects for interview beforehand, but always interviewed the chief of the German subsidiary first. Based on the information obtained from this interview with the chief I decided on whom to interview further.

The internet is also an important source of information to complement that gained from empirical studies. From online reports I made use of information about the parent companies and their investment in Germany, mostly written by journalists. In addition, most basic information about the parent companies

and the German subsidiaries, such as company history, was obtained from the internet.

2.2.2 Issues concerning research methods

Questions regarding comparative intercultural research

In this research it is important to keep in mind the differences in cultural context between the two countries. Cultural comparisons have been applied in diverse research fields—economy, sociology, anthropology, politics, psychology, etc. Summarizing Rippl and Seipel (2008, p. 7), in ancient times, people thought about their perceptions of strange cultures. In the 19th century this concept was applied to scientific research, especially in the area of cultural anthropology. In the 1940s and 1950s, research into comparative cultures experienced a boom and then declined in interest for several decades, until the 1980s. Since then this topic has again become a hot research topic in many fields, due to the dramatic globalization seen in the world.

In the diverse comparative comparison research, there is a lot of debate about research methods used in different research fields. Rippl and Seipel (2008, pp. 25–56) have summarized the methodological debate and the difficulties that come with intercultural comparison methods in ethnology, sociology, politics and psychology such as the *ethno-centrism* and *culture-relativism* that are employed in ethnological research and quantitative and qualitative studies by sociologists. *Ethno-centrism* emphasizes one culture—usually the culture of the researcher—as center-point and applies it as a criterion to measure the other culture. The culture-relativist, conversely, considers each culture as an incomparable object with its own features with distinct contexts. In the sociologic research on intercultural comparison there are two mainstream schools of thought. The first one is the tradition of explanatory sociology where people favor quantitative research and devote themselves to finding out a universal principle to explain different cultures. The other mainstream school of thought is understanding sociology, also known as cultural relativism, according to which the culture has to be considered as an object which cannot be compared with another culture, but can only be studied in interaction with its context. Researchers from this school only employ the qualitative method and are of the opinion that the quantitative method separates the culture totally from its context and misses much important information.

Rippl and Seipel have also concluded that the “*relevance of differences*” and “*understanding strangeness*” could hinder intercultural comparison. Using universal criteria allows the differences between two cultures to be defined and measured, but it may be that some criteria are not emphasized in one of the cultures, for example in this study we see that managers of Chinese companies assign lower importance to industrial democracy than German companies. Also, Chinese employees have a less well-defined understanding of it than German employees. The difficulty faced by the intercultural researcher—“*understanding strangeness*”—has not yet been totally eliminated, according to Rippl and Seipel. It is impossible for researchers from one cultural milieu to understand another culture completely objectively.

In this paper it is also difficult to make a comparison between German and Chinese cultures. Using a set of questions used by Rippl and Seipel (2008, pp. 13–22) I demonstrate the difficulties in devising a research method applying the intercultural comparative approach, and I will present few problems encountered in the empirical portion of this project.

The *first difficulty* is the identification of the cultural units to be compared. In this paper, the units to be analyzed are the German and Chinese cultures. But mostly this “culture” cannot be limited to the territorial unit or geographical borders, but is more ‘mental’. In China, because it covers a huge territory, there are many subcultures. It is not representative of reality to merge all these subcultures into a general Chinese culture and claim that it displays the mentality of all Chinese. There may be many overlapping areas of integration among these diversified cultures because of the constant interaction among these subcultures. However, distinct cultural differences don’t disappear easily into an overarching homogenous one. The same situation exists in Germany, for instance, where East and West Germany have often been deemed two separate subjects to be compared.

The *second difficulty* is of selecting comparable research objects. The research subjects in this project are the Chinese companies which have subsidiaries operating in Germany. A company is organized within a setting of regulations and positioning of economic actors—employers, employees, management etc. It acts in a network intertwined with external institutions or economic actors—trade unions, government, suppliers, customers, banks, and so on. The interactions between management and workers, management and social

institutions, shareholders and management make it very difficult to compare two “groups” of companies from two different “cultures” according to cultural dimensions. Furthermore, in both Germany and China there are several types of business enterprises, such as state-owned, state-holding, private, AG, etc. At a minimum a “fair” comparison would have to be made between two of the same kind of companies. It was hard to select the same kind of companies to be researched in this project. In this study we examine two SCs who bought German PC.

The *third difficulty* refers to the selection of the comparable subsystems of the companies to be studied. Even if the Chinese parent company and the German subsidiary have the same ownership structure, as in the second case study where they are PCs, there may still be many differences in their subsystems. For example, in German PCs management has a different approach to discussing decision-making decisions with employees than in Chinese firms (Trinczek, 2004). Furthermore, the meaning of corresponding subsystems for Chinese and German companies is different. For instance, German PCs generally put more emphasis on codetermination than Chinese PCs. If both subsystems are compared, it may be concluded that one is better than the other one. Moreover, in the empirical study no researcher can ensure that the chosen research subjects accurately present the culture in the theoretical frame. This research project has confronted at a practical problem. Up until now only a few Chinese companies own productive plant in Germany—estimated at about 20. Some of them have refused my request for an interview. As a result, it is hard to guarantee that the interviewed companies represent the typical company from Germany or China.

In spite of the difficulties inherent in cultural comparison, I must still “compare the incomparable term” (Maurice, 1991), which is the goal of this project. The main purpose of this research is to document the first steps towards the internationalization of Chinese companies in Germany, including their processes of establishing themselves, the difficulties they encounter in Germany, their motivations and strategy for investment here. Later, based on the conceptual framework of this paper, I aim to depict differences between Chinese parent companies and their subsidiaries in two selected fields and the cultural “clash” which results. Finally, based on these empirical results, I will try to determine performance benchmarks for the Chinese companies’ internationalization in

Germany and suggest a “successful” model for Chinese companies who select Germany as an investment destination.

To demonstrate the possibility of a “clash” in two areas, which I partly intend as a prescription for the firms involved, I will examine the differences in German and Chinese culture based on the research results of Hall, Hofstede and Trompenaars. It is not intended as a real cultural comparison, just a look at some classical cultural comparative models and results to “show” the large differences between German and Chinese cultures based on the criteria of these models, to identify the kinds of problems that the Chinese company may face in interacting with its subsidiary. In the same way, I examine industrial relations in both countries without direct use of norms to compare them, but by so doing giving an idea of the massive differences between two systems.

Briefly summarized, this paper aims to give a rough outline of the current internationalization of the Chinese companies in Germany. In the following chapter the state of internationalization of the Chinese companies and their tendency to play a growing role in the world and especially in Germany will be examined (3.). Then I will paint an historical picture of the internationalization of the Chinese companies. Their motivations and the advantages and disadvantages they have gained by internationalization will be analyzed in detail (4.). After that I look at the cultural differences between the two countries based on the intercultural research of several scholars. Looking at these research results we get an idea of the sharp “culture clash” experienced during the development of Chinese companies in Germany (5.). I will then outline the ideal typical German and Chinese management models (6.). In the next (7.) chapter, the question of industrial democracy politics in both countries will be analyzed. The eighth chapter looks at the empirical results of three case studies. The studies are organized schematically according to research themes—internationalization strategy, management style and industrial relations, besides control structure and production technology cooperation (8.). In the last chapter (9.), I will draw conclusions from the empirical results and try to locate the economic activities of the Chinese companies in Germany in a conceptual frame. Furthermore, reflecting the practical emphasis of this paper, I will also try to provide advice to Chinese companies planning on being resident in Germany on how to reach a successful level, based on the experiences of these three companies.

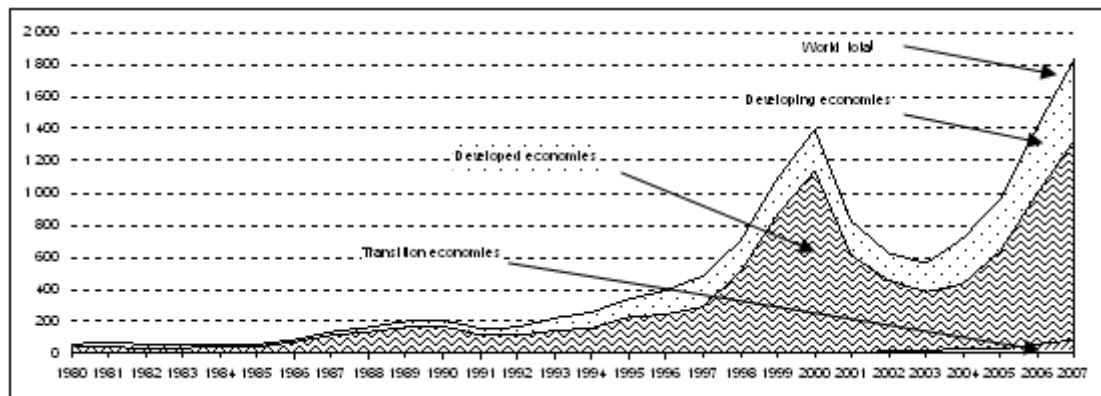
3. The trend of Outward Direct Investment (ODI)

3.1 The trend of ODI worldwide

Since 1980, ODI has experienced rapid growth worldwide in two waves, according to the database of United Nations Conference on Trade and Development (UNCTAD) (2008) (s. F.3). It experienced an expansive growth beginning in 2003 and reaching a record high in 2007. Figure 3 demonstrates that developed countries consistently played the most important role in this growth. They have the lion's share of global ODI. In spite of representing a smaller part of the growth in percentage terms, ODI by developing countries measured in absolute terms showed a general increase.

Figure 3: ODI inflows: global and by groups of economies, 1980–2007

(Billions of dollars)



Source: UNCTAD FDI/TNC database (www.unctad.org/fdistatistics) and annex table B.1.

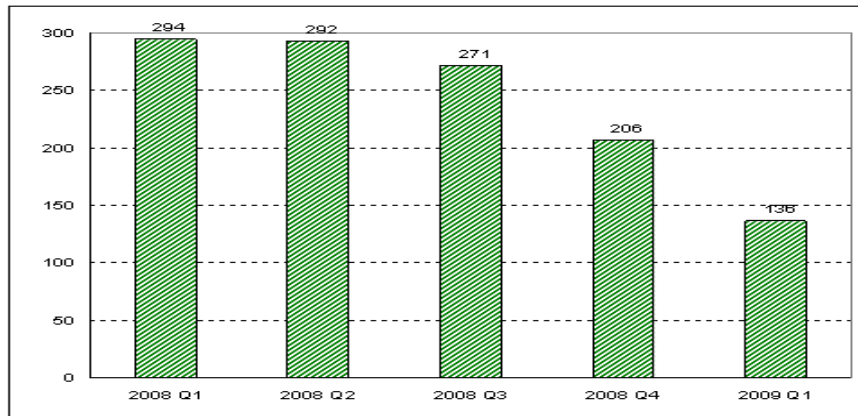
In 2008, the ODI has been impacted strongly and widely by the global economic crisis. From UNCTAD statistics an ODI low point was reached in the first quarter of 2009 (s. F.4). ODI in 57 countries, which accounted for about 60 percent of the world inflows from 2007 to 2008, decreased about more than half in comparison with its volume one year ago.

One particularly important factor in this trend is that emerging markets represented by BRIC (Brazil, Russia, India and China) are new actors⁴ constantly increasing their emphasis on ODI activities. As portrayed in Figure 5, the

⁴ In economics, **BRIC** is an acronym that refers to the fast growing developing economies of [Brazil](#), [Russia](#), [India](#), and [China](#). The acronym was first coined and prominently used by the [bank holding company Goldman Sachs](#) in 2001.

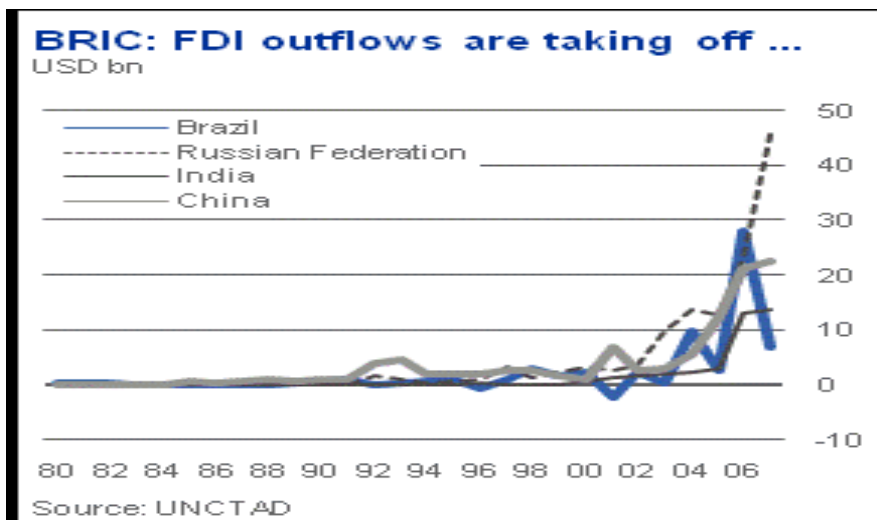
amount of BRIC ODI remains relatively small but has substantial potential. Since 2004 BRIC ODI has increased to such a level that it could be said to have a jump start effect on the world economy.

Figure 4: ODI inflows 2008–2009 by quarter (Billions of dollars)



Source: UNCTAD, ODI/MNC database (www.unctad.org/fdistatistics). Total for 57 countries which accounted for about 60 percent of world inflows in 2007–2008.

Figure 5: ODI Outflows from BRIC



Source: cited by Jaeger (2009).

ODI models can be classified in three ways—mergers and acquisitions (M&A), organic expansion (green field) and partnership route through joint-venturing or OEM (original equipment manufacturer). The first model is the one most

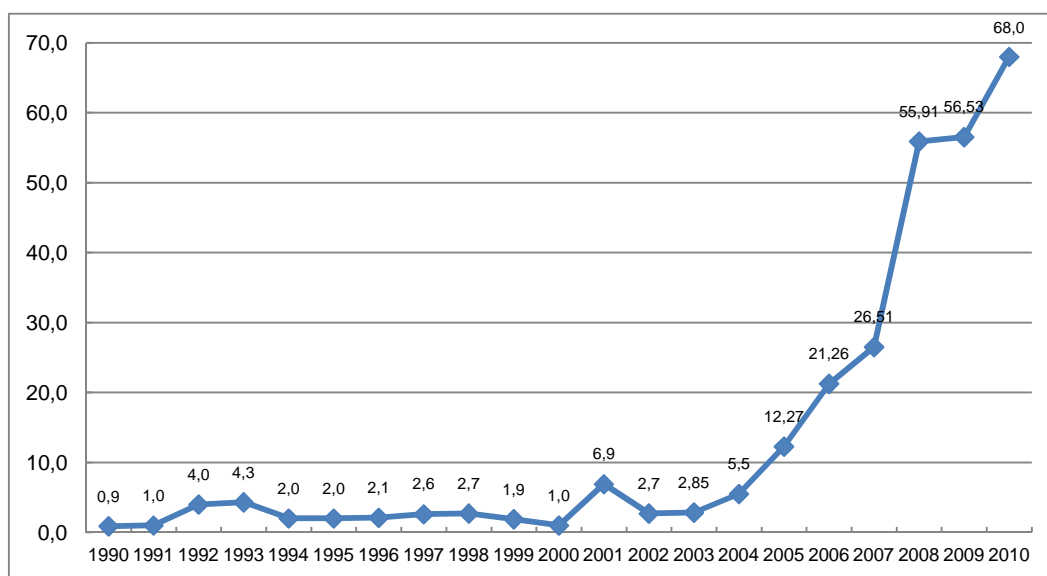
often used by MNCs when deciding to go to a foreign country. Here we take a look at the development of M&A by BRIC as a way to study their ODI activities.

The economic globalization which began in 1980 has seen the world's most explosive period of mergers and acquisitions (Nolan and Zhang, 2002). The participation of companies from emerging markets in global M&A activity has increased (Bert, Ficery and Sykes, 2009). In the two recent M&A waves—1995–2000 and 2004–2007, cross-border M&A activity increased from 27 percent to 33 percent of deal volume, reaching a new high of 38 percent in 2007 (Firstbrook, 2008). The volume and value of M&A deals involving six nations – Brazil, Russia, India, China, Mexico and South Korea – and other emerging-market players begin to increase (Bert, Ficery and Sykes, 2009).

3.2 The growing role of China as an international investor today

From observing the ODI trend, we have a good picture of the historical background and we can also predict future developments. In Figure 6 we can conclude that before 2004 China engaged in foreign investment but only on a small scale, except in 2001 when there was a small bump in ODI. This may be a result of the stimulating effects of the Chinese government's "go global" strategy implemented in 2000. Although the ODI dropped in 2002–2003, beginning in 2004 Chinese MNCs began to increase ODI. By 2010 ODI flows from China were at a level ca. ten times as in 2001.

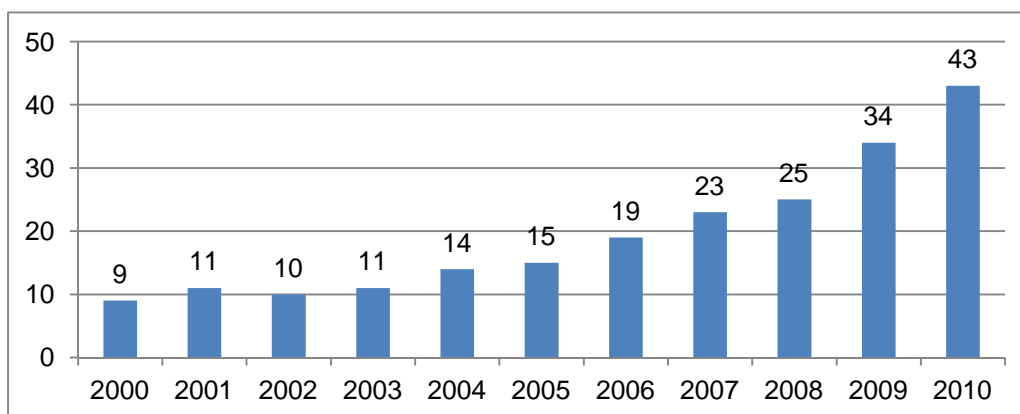
Figure 6: ODI Flow from China up until 2010 (Billions of US \$)



Source: UNCTAD (1990 to 2001); MOFCOM (2002 to 2011).

Even though an economic crisis started in 2008 and the world economy dropped into a recession, China hasn't seemed willing to slacken its march into the world economic arena. The Chinese government still strongly supports the 'go global' strategy. In May 2009, an officer of the China Industrial Overseas Development & Planning Association asserted that "the ODI of China will transit from the initial stage into the rapid development stage this year" (MOFCOM, 2009). Statistically, this prediction has not been totally realized. Chinese ODI increased in 2009 with a small relative difference in comparison to 2008. However, in 2010 it showed a large jump. In the near future there are signs that China ODI is playing a dynamic role.

Figure 7: Chinese Companies in Fortune 500 Ranking



Source: Fortune, from 2000 to 2010. This statistic refers only to companies from mainland China.

- 1) The global ambitions of Chinese government have never slackened. Starting in the end of 1990s, the Chinese government began its attempt to aggressively create national enterprises that are strong enough to compete globally (see for instance: Nolan and Zhang, 2002). Its main tool is supporting large-scale companies to go global and expand their business worldwide. This "team" of businesses was in the aerospace, oil and petrochemical, pharmaceutical, power equipment, automobiles, steel, and coal mining industries. After more than ten years of effort, statistics from the *Fortune 500* partly demonstrate the effect of this policy. *Fortune 500* is a list in which the top 500 companies in the world are ranked by their market capitalization. In 2000, as depicted in Figure 7, only nine mainland Chinese companies were on this list and there was no Chinese company listed in the top 50 group. After about ten years, this number of Chinese firms on the list rose to 43 and three

of them belong to the top 10 list. The majority of Chinese companies on the list are state-owned or state-holding. Because of support from government their expansion doesn't seem to be slowing down at all.

- 2) Confronted with the impact of the economic crisis, the Chinese government was forced to increase its ODI volume to reduce the possibility of economic loss. Until now, Chinese government had reserved massive foreign currency reserves mostly in dollars. After the outbreak of the economic crisis, China is faced with a difficult task of preserving the value of its foreign currency reserves. There are two main ways which were chosen by Chinese government to do this. One solution available to them is to buy production equipment from industrialized countries. Another way, the mostly used measure, is to enforce support for ODI by Chinese MNCs. A typical example of this is the increased ODI activity of Chinese MNCs—special SCs—after a merger and acquisition in buying natural resources overseas. It is now considered a valuable way to preserve foreign currency on hand. For instance, on June 24, 2009 Sinopec merged—for a high price—with Addax, from Switzerland, which had crude oil exploitation rights in West-Africa and the Middle-East⁵. Almost one week later, CNPC, working with the English oil company BP, gained approval at auction for exploiting an oil field in Iraq.

Some scholars also believe China's ODI will rise rapidly. For instance, Jaeger (2009) pointed out that the following factors support the thesis that China's ODI will rise rapidly in the near future:

- China's greater economic size, its faster economic growth rate, especially its large external surpluses;
- China's significant "catch up" potential;
- The government has liberalized regulations governing ODI flows in recent years and has streamlined bureaucratic procedure;
- Wider strategic objectives support Chinese ODI – the tremendous need for natural resources.

⁵ <http://funds.hexun.com/2009-06-28/119100557.html>

3.3 China's ODI in Germany

In the European Union, Chinese ODI has been increasing constantly over the last ten years. In this region Germany is the most important investment destination for Chinese ODI. From Table 1, we see that China's ODI in Germany was the highest of any country 2003 to 2009, except the years of 2007 and 2009 when the United Kingdom and Luxemburg were respectively in first place. Furthermore, proportionally the total amount of China's ODI in the EU also appears large.

Table 1: China's ODI Inflows into the EU by Country 2003–2009 (Not including financial services) (Millions of US \$)

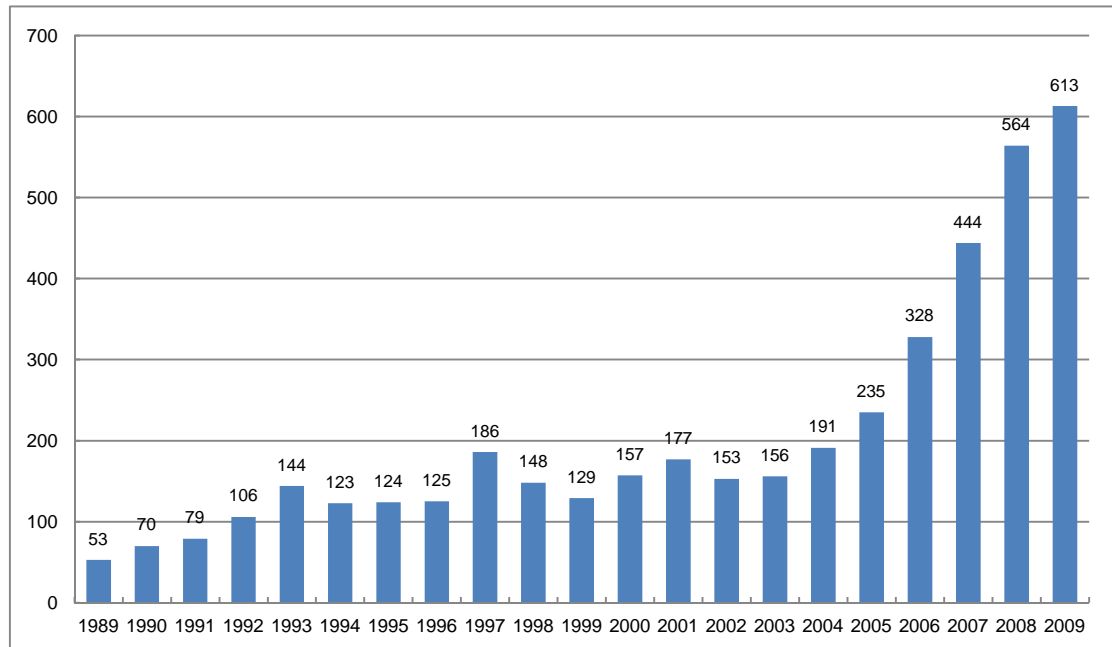
Country	2003	2004	2005	2006	2007	2008	2009
Austria	0.4	-	-	0.04	0.08	-	-
Belgium	0.3	0.05	-	0.13	4.91	-	23.62
Bulgaria	0.35	0.35	1.72	-	-	-	-2.43
Czech Republic	-	0.46	-	9.10	4.97	12.79	15.6
Denmark	73.88	-7.78	10.79	-58.91	0.27	1.33	2.64
Finland	-	-	-	-	0.01	2.66	1.11
France	0.45	10.31	6.09	5.60	9.62	31.05	45.19
Germany	25.06	27.50	128.74	76.72	238.66	183.41	179.21
Greece	-	0.20	-	-	0.03	0.12	-
Hungary	1.18	0.10	0.65	0.37	8.63	2.15	8.21
Ireland	0.14	-	-	25.29	0.20	42.33	-0.95
Italy	0.29	3.10	7.46	7.63	8.10	5.00	46.05
Latvia	1.58	-	-	-	-1.74	-	-0.03
Luxembourg	-	-	-	-	4.19	42.13	2270.49
Malta	-	0.37	-	0.10	-0.10	0.47	0.22
Netherlands	4.47	1.91	3.84	5.31	106.75	91.97	101.45
Poland	1.55	0.10	0.13	-	11.75	10.70	10.37
Romania	0.61	2.68	2.87	9.63	6.80	11.98	5.29
Spain	-	1.70	1.47	7.30	6.09	1.16	59.86
Sweden	0.17	2.64	1.00	5.30	68.06	10.66	8.1
United Kingdom	2.11	29.39	24.78	35.12	566.54	16.71	192.17

Source: MOFCOM. 2010. * Data on Cyprus, Estonia, Lithuania, Portugal, Slovakia and Slovenia were not included in this source.

According to statistics from the *Deutsche Bundesbank* (German Federal Bank), as demonstrated in Figure 8, Chinese ODI from 1989 to 2009 in Germany exhibited a general growth. The numbers show that the volume of the Chinese investment in Germany is small. But the increasing trend shows that Chinese companies have a great potential to internationalize in Germany. In

particular since 2004 Chinese ODI has demonstrated significant growth in Germany. The Chinese play an increasingly important role as “investors”.

Figure 8: Annual totals for Chinese ODI in Germany (in Millions of Euros)



Source: German Federal Bank, 2010.

4. The internationalization of Chinese companies

4.1 The history of the internationalization of Chinese companies

When making an overview of the history of internationalization of Chinese companies, most studies focus on the period of time since 1979—the implementation of China’s open-door policy—until the present day. From 1949 to 1979, Chinese companies pursued internationalization only with developing countries from “the Third World” (Wei and Bo, 2006, p. 83).

We see many small but important differences in the internationalization of Chinese MNCs, as presented in Table 2. Most scholars divide the history of Chinese companies’ internationalization since 1979 into four stages, as can be seen in the work of Warner, Hong and Xu (2004), Wei and Bo (2006, p. 83), Wu and Chen (2001), and Wong and Chan (2003). There are also a few scholars, for example Buckley, Clegg, Cross, Liu, Voss and Zheng (2007), who divide that history into five stages. Buckley (et al.) divide the history of China’s internationalization from 1979 to 2001 into the same four stages as Wong and Chan (2003), and use the same points in time and the same reasoning for arriving at them, but simply add an additional stage. Because of the similarity between the two studies, I will not present the results of Wong and Chan in the Table 2. The different approaches to the internationalization process of Chinese MNCs are presented in the Table. The model of Wu and Chen (2001) shows more differences than the others, especially in the last stage, defined as a recession stage, when the government instituted a more rigorous supervision of ODI projects. The database only contains information until 1998, after which Chinese ODI underwent a massive expansion.

When examining the history of internationalization of Chinese companies, it is difficult to divide it into a few distinctive time periods. Some scholars, such as Wei and Bo, and Wu and Chen, separate it based on statistics. Warner, Hong and Xu have emphasized the companies’ view by analyzing the improvement of the structure and management capacities of Chinese MNCs during internationalization. Buckley et al. use the institutional perspective and focus on the macro-level—the national economic environment and policy shifts.

Table 2: Stages of Chinese companies' internationalization

	Stage 1	Stage 2	Stage 3	Stage 4
Warner, Hong and Xu (2004)	1979–1984	1985–1990	1991–1999	Since 2000
	Fragmented effort at company level	Outward activities at the national level	An era of accelerated growth and development	Global strategy development
	Coincided with the early period of PRC's 'Four Modernizations' ⁶ , reforms. Representative trade offices created.	The state codifies regulations governing ODI by national enterprises. Rapid and diversified growth in the external activities of state MNCs. Some liaison offices upgraded to trading companies.	A significant increase in the use of ODI activities by Chinese MNCs.	Entry into WTO in 2001. Proactive promotion of transnational business and investment activities, integrated framework of strategic planning at both national and company levels.
Wei and Bo (2006, p. 83)	1979–1986	1987–1990	1991–2000	Since 2001
	Initial stage of transnational management	Growth stage of transnational management	Take-off stage of transnational management	Accelerated development stage of transnational management
	Small scale ODI: \$253 million distributed among 47 countries and regions, most of which are developing countries, such as Hong Kong and Macao. Small number of companies engaged in ODI. 277 trading offices established overseas.	Total ODI: \$808 million; ODI destination countries and regions increased to 90. 569 companies or offices established.	ODI activities in more than 160 countries and regions. 1151 subsidiaries were established overseas from 1991 to 1996.	'Go global' strategy implemented. Entry into WTO in 2001.

⁶ The "Four Modernizations" were in the following fields: agriculture, industry, national defense, science and technology. They were introduced as early as January 1963. In December 1978, Deng Xiaoping's announced the official launch of the Four Modernizations, formally marking the beginning of the reform era.

	Stage 1	Stage 2	Stage 3	Stage 4	
Wu and Chen (2001)	1979–1983	1984–1985	1986–1992	1993–1998	
	Early stage of development	Expanding stage	Significantly expanding stage	Temporary recession stage	
	Relative small scale of investment projects. Investment concentrated mainly in a limited number of industries: marine transport, finance and insurance, contracting and Chinese restaurants.	ODI projects spread to more destinations and also over a wider variety of sectors and industries: manufacturing, processing and assembly, trade, and so on.	Economic liberalization speeded up; expansion of investment in industrial and agricultural production, resource development; ODI for profit maximization.	Overheating of China's economy in 1993; Economic restructuring; More rigorous screening of ODI projects by government.	
	Stage 1	Stage 2	Stage 3	Stage 4	Stage 5
Buckley, et al. (2007)	1979–1985	1986–1991	1992–1998	1999–2001	Since 2001
	Cautious internationalization	Government encouragement	Expansion and regulation	Implementation of 'go global' policy	Post-WTO period
	'open-door' policy; Only state trading corporations under the Ministry of Commerce and provincial and municipal' economic and technological cooperation enterprises' under the State Economic and Trade Commission are allowed to invest abroad.	Government liberalizes restrictive policies and allows more enterprises to invest abroad.	Domestic liberalization; subnational-level authorities actively promoting ODI of companies under their supervision. Tightening of approval procedure.	Further measures to control illicit capital transfers; By contrast, ODI in specific industries is actively encouraged, notably in trade-related activities that promote Chinese exports of raw materials, parts and machinery, etc.	Some companies are forced to seek new markets abroad because of heightened domestic competitive pressure. Approval system is decentralized; proactive involvement in ODI continues to be limited to preventing illegal capital outflows and loss of control of state assets.

Nonetheless there are some rough time periods that can be used as dividing lines. The first stage in the history of Chinese MNCs' internationalization lasts until the middle 1980s. The next point could be at the beginning of the 1990s. The short time span since China entered the WTO is often used as the last dividing line. In this paper, further discussion about the internationalization history of Chinese MNCs over the last 30 years will emphasize institutional changes in China. The following are the reasons for selecting this approach:

- The proper time point for making a comprehensive survey might not be now. Normally, companies play the leading role in internationalization, but due to the political situation over the last 30 years, Chinese MNCs have been relatively passive. When we look at the improvement of internal structural capacity as a result of internationalizing, Chinese MNCs have not achieved a mature level. This means that 30 years after beginning their efforts at internationalization, Chinese companies are still generally at a basic stage. They have only small-scale investment projects overseas, and most of them are concerned only with establishing a representative or trade office. Some Chinese MNCs also own subsidiaries with productive plant overseas. Of these productive subsidiaries in industrialized countries, however, only a few of them have yet to demonstrate a satisfactory performance. Chinese MNCs have generally not shown a capability to control and manage their subsidiaries abroad, especially in industrialized countries. Therefore, one view is that it is still too early to summarize the internationalization history of Chinese companies by focusing on the improvement of structural capacity. After numerous efforts over 30 years and the financing of massive studies, the international capability of Chinese companies is still inferior to Western MNCs. Based on this, it could be said that during the entire 30 year period of internationalization of Chinese MNCs, they have been in the primary stage.
- Statistics show an overview of the internationalization trends, including such information as the amount of ODI and the industries into which Chinese ODI spread. But if we rely solely on the statistics, the analysis remains supercritical and does not show the complex social structural changes and the interaction between the important two actors—political institutions and companies. Another problem is the difference between

statistical categories. This could sometimes result in two opposite arguments from the same data, such as the different conclusions from Wei and Bo (2006) and Wu and Chan (2001) about the history of the period of time from 1993 to 1998.

- In these 30 years, the internationalization of Chinese companies was accompanied by intensive government activity, such as launching internationalization policy on the national level, approval of ODI projects, securing banking support, etc. From these studies it can be seen that the history of internationalization is a process characterized by two trends. The first one is the continual decrease in institutional restrictions for ODIs projects by the government. The other one is the ongoing effort to invest abroad by companies.

Based on these discussions, some important policies shifts which have changed the course of Chinese ODIs will be touched upon in the following paragraph.

The first turning point in the internationalization process of Chinese MNCs is undeniably the strategic transition in China from political movement to economic development at the end of 1978. Since that time the rigid planned economic system has undergone great change as the result of economic reform. Soon economic interaction with industrialized countries such as the U.S., Germany, the United Kingdom, Japan, and Singapore increased, which the Chinese government previously labeled as “a hostile camp” directed against China. The greater communication has served primarily to induce greater foreign investment to China, thus increasing economic development. Another important effect of attracting ODI to China was the improving the competitiveness of Chinese companies. ODI in China brought not only an increase in knowhow about modern management, technology, brand setting, and so on. The Chinese government also began to loosen controls on ODI and allow some Chinese companies to invest abroad, as demonstrated by Buckley, et al. in Table 2. ODI activities in this phase could be characterized as fragmented and small-scale. Most efforts of Chinese companies in investing overseas focused on establishing representative offices in foreign countries. Their tasks were confined to building or maintaining business contacts with companies in host countries. In addition, although some Chinese companies have not established business offices abroad, they started to contact companies in indus-

trialized countries directly and build business relationships. This “first touch” could be also considered as an important step in the internationalization process of Chinese companies.

The second important point in time is the year 1984. In this year the Chinese government began to institutionalize the administrating of ODI activities. Previously, between 1979 and 1982, an ODI project might be only approved by China’s State Council. Beginning in 1982 the MOFTEC has been authorized by China’s State Council to take charge of this task. But until 1984 there were no regulations in place regulating ODI activities. In 1984, a body of regulations was codified formulating the procedure to approve ODI projects. This marked the entry into a standardized phase of ODI administration. Moreover, the regulations did a lot to release the institutional bottleneck for companies’ investing abroad.

The third important milestone could be the “southern tour” of Deng Xiaoping in 1991. Before every big step in economic development in China, preconceptions of the old rigid ideological mindset of a planned economy must be changed. This is politically defined as “ideological emancipation”. Before launching the reform policy in 1978 “the great debate of truth” was held in China. The debate was supported strongly by Deng Xiaoping, who is considered as the chief designer of the China’s reform and opening to the West. In 1991, China’s reform was placed in a difficult situation by a series of events, such as an economic crisis in 1988, student protests in 1989, and sharp ideological controversy about the “capitalistic way or socialistic way”. Faced with this situation, the Chinese government decided that maintaining social stability was its highest priority policy and reduced the importance of economic development until 1991. The internationalization of Chinese companies was also negatively influenced by this decision. Deng Xiaoping’s speech in his “southern tour” ended the debate of capitalism and socialism once and for all in favor of capitalism. It meant that the final decisive obstacle was eliminated. He also reformulated the significance of economic reform and policies of opening up. These initiatives anchored the policies of openness to Deng Xiaoping’s authority and brought about an expansion of ODI. Governmental administration of ODI also matured during this period. Along with more ODI, there was the negative effect of an increase in capital flight. After the outbreak of the Asian financial crisis the government began to supervise the approval of ODI activities more tightly. At that time the level of Chinese ODI fell for a short time.

But this could be seen more as a rethinking and correcting phase to prepare for a more mature institutional development and healthy development of ODI in the next step.

The fourth event influencing the development of Chinese MNCs' internationalization is the implementation of a "go global" policy and China's entry into the WTO. Buckley et. al. considered these two events as demarcation points respectively for two of their phases. But I would rather consider bind these two events years together as marking one mark for the beginning of the fourth stage of Chinese companies' internationalization. The "go global" policy encouraged the companies' to investing abroad. This was motivated by the desire. The important motivation is to enhance the competition capability of Chinese companies, so that they would be able to counteract the impact by the foreign MNCs after the China's entry of China into the WTO. At this time, the "go global" could be considered deemed as the preparation for the post-WTO era. On the other hand, WTO membership for China could be looked upon as an external pressure for Chinese MNCs to go overseas to persuade new opportunities for development. Since its entry into the WTO until now, the scale of investment of Chinese MNCs in foreign countries has risen sharply. More manufacturing subsidiaries have been established abroad. The merger and acquisition of companies in industrialized countries by Chinese MNCs was an occurrence taken frequently place during this time.

4.2 Motivations of Chinese companies when internationalizing

When discussing about the motivation Chinese MNCs when internationalizing, two questions must be answered: Why do they go abroad? What are their goals in investing abroad? The first question concerns the underlying motivating factors. The second one refers to the investment targets. To answer the first question, some scholars, for instance Child and Rodrigues (2005), (Liu and Li, 2002), and Poncet (2007), have discovered a number of reasons driving Chinese companies to internationalize. The main results are set out in Table 3.

These driving factors behind the internationalization of Chinese MNCs are embedded in an economic and national/institutional context, which are termed low-context and high-context perspectives in the work of Child (et al. 2001, pp. 32–44). The low-context perspectives generally minimize the national distinctiveness and refer to economical, technological, namely practical needs of

companies. The high-context perspectives stress cultural and institutional backgrounds.

Table 3: Driving and facilitating factors behind internationalization by Chinese companies

Drivers	
1	The hazard of relying on a highly competitive domestic market, with low profit margins.
2	Opportunities to export based on domestic cost advantages.
3	The potential to complement domestic cost advantages with differentiation advantages acquired abroad.
4	The need to secure and develop advanced technology and internationally recognized brands.
5	The desire to gain entrepreneurial and managerial freedom.
6	The aspiration of entrepreneurs to compete globally.
7	Overcoming pressure of survival from entry of foreign MNCs into China market.
Facilitators	
1	Strong governmental support for globalization, especially financial banking and tolerance of domestic moves (such as M&A) that build corporate strength.
2	The ability to reach a favorable accommodation with government, so as to combine support with strategic freedom to act entrepreneurially, raise capital abroad, etc.
3	The willingness of foreign firms to sell or share international-standard technology, knowhow, and brands.
4	The host country's favorable investment policies, including incentives and other location-specific advantages

Source: Child and Rodrigues, 2005; Liu and Li, 2002; Poncet, 2007.

The driving forces behind the internationalization of Chinese MNCs could be also reclassified into low-context and high-context groups. The low-context group of forces, such as highly competitive domestic market with low margins, technology sharing, and the entry of foreign companies, mirrors the economic demand to enlarge profit faced by all Chinese MNCs. These factors are mainly caused by the survival pressure from domestic and international market competition. It means that deciding to invest abroad by Chinese companies is mostly a defensive move. In contrast to western MNCs who have already developed for a long time in the domestic market with its congested competitive environment of management, technology, capital, etc. resources, Chinese companies are forced to go overseas to gain competitive advantages in the world market others have achieved in the domestic market.

Some driving forces are also related to the high-context group, spurred by political or idealized ambitions. One point is that the government was a driving force because of political reasons. In the middle of 1990s the Chinese government showed its global ambitions by implementing a policy of “national champions”. As previously mentioned, it planned to build up a team of large Chinese industrial firms, because it considered “the economic competition between nations in fact between each nation’s large enterprises and enterprises groups” (Norlan and Zhang, 2002). Through this policy, a group of Chinese companies received strong support from the government and soon grew into large MNCs, such as Sinopec, CNPC, and State Grid. In this way, the internationalization of these companies to a large degree has been driven by institutional forces. The other point is that a group of Chinese entrepreneurs promoted internationalization because of an idealized vision. Almost simultaneously, they himself advocated the same strategy as company vision—“entry into the Fortune 500”. It was first promoted by the CEO of *Haie Zhang Ruimin* at the end of 1995. His aim was that in 2006 *Haier* would become one of the world’s biggest 500 companies. After his goal was made public, about 30 Chinese companies announced their target dates for entry into the Fortune 500. Gradually this vision became a totem for all Chinese companies (Wu, 2008, p. 73). To achieve this goal, they began to enlarge the company scale through rapidly merging domestic companies, expanding overseas markets and emphasizing investing abroad. This aspiration also influenced the government. In the fall of 1996 the Chinese government held up “entry into Fortune 500” as a national economic goal and selected six companies as “seed companies”. It tried to development them so they could achieve this by 2010. Today, when looking back at this effort, most companies which had this ambition or had been chosen for this goal have not reached it. In fact, it has caused many problems for Chinese companies, such as overheated investment and expansion, a one-sided focus on increasing output value and neglecting R&D. But it should be also understood as a collective awareness among Chinese government officials and private entrepreneurs of the need to increase the speed of internationalization.

Focusing on the question of the purpose Chinese MNCs have for investing abroad, many scholars have examined this in their work (for example, Deng, 2003; Bonaglia, Goldstein and Mathews, 2006; Liu, 1992; Wu and Chen, 2001; Wei and Bo, 2006, pp. 76–79; Chen and Lin, 2006; Gugler, 2008). Based on

their research, we can say that Chinese MNCs are motivated to internationalize by four factors:

- *Seeking markets.* To bypass the market tax and price barriers and other protectionist measures, Chinese MNCs invest directly in host countries to develop new markets, with measures such as establishing their own subsidiaries to sell their products, or buying companies in host countries completely. Their resulting marketing networks are also a valuable resource to be utilized.
- *Seeking resources.* When the Chinese economy began to grow rapidly, the lacking of natural resources became an important factor restricting sustainable development. Many Chinese companies explain that seeking resources such as oil and mineral resources is an aim of their investment abroad. SCs play an important role in this area.
- *Seeking efficiency.* Investment in lower labor cost countries—such as China—and a search for technology should be seen as efforts to increase efficiency. Although lower wages is one advantage attracting foreign companies investing in China, there are also some countries in Southeast Asian and African that also enjoy this advantage. One reason that Chinese MNCs investing in those countries is to reduce production costs. The search for technology is also partly an attempt to lower costs. Through purchasing companies in industrialized countries Chinese MNCs also obtain sophisticated technology. Thereby they save both capital and the time involved in developing the same technology themselves.
- *Seeking strategic assets.* Strategic assets consist of brands, managerial knowhow, etc. There are generally two ways for Chinese MNCs to acquire these assets. One is to obtain the existing international brand or knowhow through buying a foreign company. The other one is through gradual, organic expansion. For instance, they can learn how to manage an MNC by establishing subsidiaries step by step—first setting up subsidiaries in still industrializing countries, and then in Europe. A few companies built an international brand by investing overseas. For example, *Haier* built a factory in the U.S., thereby becoming an international company. Later on, when it went to Europe and invested there, it was as a global brand.

4.3 The route toward Internationalization

There are generally three paths a company can follow to entry a foreign market: merger and acquisition, organic expansion (green field) and partnership through joint-venturing or OEM (original equipment manufacturer). Child and Rodrigues (2005) examine the advantages and disadvantages of the three paths, as exhibited in Table 4.

Joint-Venture or OEM relates to a kind of “inward” internationalization in which there is a close, continuing, operational and organizational relationship with one or more multinational enterprises of a kind that permits the transfer of competencies and knowledge relevant to eventual ‘outward’ internationalization through exporting and/or investment abroad (Child and Rodrigues, 2005). Currently, OEM is an important business coordination model between Chinese manufacturers and foreign companies. It combines the cost advantages in China with the brand advantages of foreign companies and leads China to become “a world manufacturing plant”.

Merger and acquisition is defined by Franks, Broyles and Carleton (1985) as a takeover in which one company secures a sufficient proportion of another company’s stock to control its decisions. According to Deng (2003) and Nolan and Zhang (2002), Chinese companies prefer the acquisition route and are more likely to take over an existing company than start a new operation. The Chinese companies which acquire overseas can be divided into two groups according their motivations. The first group consists of large state-owned corporations involved in the processing of various raw materials, who aim to secure raw material supplies. This type of acquisition accounts for just over one half of all Chinese overseas takeovers by value (McGregor, 2005). To other type of acquisition consists of Chinese companies not involved in producing primary products. Their foreign acquisitions aim at increasing their market strength worldwide through gaining access to technology, securing research and development skills, and acquiring international brands, including the brands’ equipment, assets, knowhow and intellectual property rights (Child and Rodrigues, 2005). In so doing they also obtain a local network of distribution and supplies.

Organic expansion aims at securing advantages by adjusting to local market needs and tastes. A particular result of this type of expansion is that the parent company has the entire managerial control over the subsidiary and enjoys

maximal possibilities of integrating it into its structure. Internationalization through organic expansion exhibits both asset-exploitation and asset-seeking elements (Child and Rodrigues, 2005). For instance, *Haier* has had to work hard to establish a domestic market strength based on a combination of innovativeness and high quality. These became assets that it exploited when entering sophisticated developed countries. In addition to the distinctive elements of the three model presented in Table 4, Yeung (2005) points out that this route enables a company to implement an internationalization strategy according to its own time plan. Whole ownership of a subsidiary could be an appropriate opportunity for the management team to learn and improve their skills in global operations. The risk is that they could also fumble the chance.

Table 4: Routes to Chinese internationalization

<i>Route</i>	<i>Advantages</i>	<i>Challenges</i>
OEM/JV (including licensing)	<ul style="list-style-type: none"> • Capitalizes on low cost production in China. • Requires less and lower-risk investment. • Opportunity to learn international technology, practices and standards, so reducing the liability of foreignness. • Opportunity to build sound reputation as basis for international branding. 	<ul style="list-style-type: none"> • Danger of dominance by foreign partner, especially if it retains rights over brands and technology. • Hostile reaction by foreign partner when launching own brand and turning into a competitor.
Acquisition	<ul style="list-style-type: none"> • Fast route to securing technology and/or international brand. • Denies access to competitors. • Prospect of effecting a turnaround of a poorly performing acquired company. 	<ul style="list-style-type: none"> • Risk of over over-paying. • Need to acquire strong rather than failing assets. • Faces high liability of foreignness; problem of managing acquired assets and preserving equity of acquired brand.
Organic international expansion	<ul style="list-style-type: none"> • Facilitates a localization strategy. • Strengthens credibility of own brand. • Enables introduction of own management, staff and practices from the outset – reduces liability of foreignness. • Improves chances of achieving global integration. 	<ul style="list-style-type: none"> • Slower route to internationalization. • Requires high investment which may impose financial strain. • Capacity to manage overseas organic expansion may be limited.

Source: Child and Rodrigues, 2005.

4.4 Advantages of internationalization of Chinese companies

The commonly used measure to analyze the advantages to firms from internationalization is Dunning's eclectic paradigm, which contains three terms: ownership (O), location (L) and internationalization (I). Erdener and Shapiro (2005) have investigated the advantages of Chinese family companies using only Dunning's paradigm. Buckley et al. (2007) have explained the advantages by internationalization by looking at Chinese SCs and PCs together. To describe the advantages of internationalization to Chinese companies, that means both state and private companies, the results of Erdener and Shapiro, and Buckley et al. will be presented together in the following paragraph.

Ownership-Advantages of Chinese companies

Ownership-advantages are firm-specific competitive advantages that have been developed in the home market and are necessary to offset the cost of foreign operations (Erdener and Shapiro, 2005). They include tangible assets, endowments such as natural resources, manpower and capital, and intangible assets such as knowledge, brands and organizational skills. According to Dunning's (1981) theory, ownership-advantages also include the cultural, legal and institutional environment in which endowments are used, and the market structure of the industry in which the firm competes. It could also extend to relational assets, defined as the ability to engage in beneficial relations both within the firm and with other firms and agents (Dunning, 2002). Moreover, they include firm-specific technology, brand names, superior management knowhow, marketing expertise, product differentiation, and financial and monetary strength (Deng, 2003). Another form of ownership-advantage may reside in a firm's ability to take advantage of common governance opportunities across borders (Dunning, 1993, p. 135). Such governance opportunities arise from economies of scale, scope and learning that attend common ownership across national borders (Tolentino, 2001). Firms will differ in their ability to extend common governance to operations in other countries (Erdener and Shapiro, 2005).

In Chinese companies ownership-advantages reside mainly in intangible proprietary assets, and these take the form of human and social capital. Such assets include specific managerial capabilities embodied in the individual manager and his personal network, including extended kinship structure (Bian,

2002; Erdener and Shapiro, 2005). Erdener and Shapiro suggest the following advantages:

- Quick deal-making. The decision-making procedure in Chinese companies is simple and short. The manager can take a decision according to the actual business circumstance without highly institutionalized procedures. This enables them to seize commercial windows of opportunities by efficient and effective deal-making (Erdener and Shapiro, 2005; Chen, 1995).
- Relational contracting. Chinese companies favor doing business through personal relationships and negotiation (Chen, 1995). For example, for a long time Chinese companies had little understanding of “contract writing” in business. They often made deals through verbal agreement based on “trust” between them. Not only does this reduce the transaction cost to Chinese companies of doing business, it also enables them to seize commercial opportunities faster than competitors (Erdener and Shapiro, 2005).
- Operational control. In addition to the usual organizational and bureaucratic controls found in businesses, there are many other control mechanisms in operation in the Chinese business system, including personal, family, social, cultural and economic controls (Erdener and Shapiro, 2005). For instance, “trust” in the business network can also play a role as a control mechanism. When a businessman harms others in his business dealings, it means he will lose credit in his social circle, and it will obstruct his ability to conduct business in the future.
- Risk management. “Under the pressure of numerous historical and contextual contingency, the traditional Chinese family companies developed a certain competence in risk management or risk avoidance” (Erdener and Shapiro, 2005). Erdener and Shapiro have not explained what factors make up the risk management competence, but I would like to suggest that it may include the cohesion of kinship and seeking the support of social networks such as government, friendship, etc.
- Firm size. Compared to Western MNCs, Chinese MNCs are generally smaller. This small scale could be either advantageous or disadvantageous. Its positives may be on display in an uncertain market. In such

a market, sudden changes require a quick response from a company. Small-sized companies normally have a centralized organizational structure and tight control over operations. This enables them to handle uncertain situations effectively (Erdener and Shapiro, 2005).

Moreover, institutional factors in China, such as capital market and governmental support, could be translated into ownership-advantages for Chinese companies (Buckley, Clegg, Cross, Liu, Voss and Zheng, 2007).

- Capital market imperfections. According to Buckley et al., the capital market in China has four imperfections. Firstly, SCs may have capital made available to them at below-market rates. Secondly, inefficient banking systems may make soft loans to potential outward investors, either as policy or through inefficiency. Thirdly, conglomerate companies may operate an inefficient internal capital market that effectively subsidizes ODI. Fourthly, family owned firms may have access to cheap capital from family members.
- Political environment. The internationalization strategy of Chinese companies is strongly influenced formally and informally by the government and its agents through its policies.

Location-Advantages of Chinese companies

Location-advantages explain in part the logic behind choosing a destination for investing. These could be market size, physical and political infrastructure, educational levels or income per capital, also low wages (Erdener and Shapiro, 2005). The choice of country to which the assets are transferred depends on various considerations related to the host country and on the interaction between host and home country characteristics (Davidson, 1980). Chinese companies look for the following advantages when choosing a location:

- Network preference. Chinese MNCs prefer to choose to invest in a country or region as their target where they also have a personal connection and network. Cai (1999) and Deng (2004) find that in earlier phases of internationalization, Chinese companies demonstrated a preference to go to countries where Chinese social networks are present.
- Flexibility preference. Chinese businesses prefer a business environ-

ment in which negotiation skills based on relationships are crucial to successful performance, (Yeung, 1999, p. 120) and also invest in locations where codified market-enhancing institutions are weak (Boisot and Child, 1996). In this type of business environment they can apply their capability of building-up social networks most effectively.

- Culture preference. Cultural familiarity and proximity are an important consideration for Chinese companies in choosing a business location, so that they can understand the culture of the local operating environment well, and their given business characteristics can match the local characteristics of the host country (Erdener and Shapiro, 2005).

Internationalization-Advantages of Chinese companies

Internationalization-advantages refer to the ability of a company to leverage abroad its domestic advantages by internalizing markets (Erdener and Shapiro, 2005, S.419). This aspect of the paradigm is normally demonstrated through the application of transaction cost economics to the question of how proprietary assets are best transferred (e.g., Buckley and Casson, 1998, 2002, 2003). The internationalization-advantages of Chinese companies center on its characteristic ability to quickly mobilize action and resources in a coordinated fashion, thereby gaining advantages of timing and flexibility via-a-via competitors (Yeung, 1999). This is derived from its network structure, which enables it to leverage the assets and capabilities of others in the network.

- Preference for control of overseas subsidiaries. The proprietary assets of Chinese companies are based on the highly intangible human capital assets involved in relational contracting capabilities and deal making skills. These assets cannot be easily transferred outside the firm. Therefore in order to capitalize on these unique skills and capabilities, Chinese companies must retain hierarchical organizational control over their proprietary assets as they expand internationally. This is why they tend to subsume their overseas subsidiaries within the parent organizational structure by 100 percent or majority ownership of foreign ODI (Erdener and Shapiro, 2005).
- Networking. Chinese business people look on social networking as a very important pillar in successful performance. During its internationalization the network enables them to economize on various kinds of

costs, such as the cost of enforcing contracts, inventory costs, and information costs (Landa, 1981).

- Resulting timing. The resulting timing advantages account for the prevalence of Chinese companies in industries where windows of opportunity open and close quickly. For example, in garment or toy industries driven by fashion and fads, Chinese companies are able to economize on the production costs and producing mobility to seize the opportunity to attain contracts by seasonal demand, such as producing toys for Christmas holiday markets (Erdener and Shapiro, 2005).
- Small size. Because of their relatively small size, Chinese companies are able to achieve a high degree of operating flexibility without sophisticated internal organizational processes and systems or decentralized decision-making (Erdener and Shapiro, 2005).

4.5 Difficulties of Chinese companies in internationalizing

During internationalization Chinese MNCs encounter many difficulties. The chance of failure in ODI is at a similar level. Lots of scholars who investigate the internationalization of Chinese MNCs have taken pains to summarize the reasons for their failure (Chris and Martyn, 2006; Wu and Chen, 2001; Hemerling, Michael and Michaelis, 2006; Sohm, Linke und Klossek, 2009, p. 54). They have made a general analysis of the problems faced by Chinese MNCs by going abroad.

On the basis of in-depth analysis of this body of work, I have summed up the difficulties which Chinese companies face in internationalizing in Table 5. For this reason I don't reference the information sources individually, just collectively. In the process of going abroad to invest, Chinese MNCs may confront *external* problems and also *internal* problems. These problems will be discussed here in two time periods—*pre-settlement* and *post-settlement*.

External problems *before* settlement:

- Less financial support by government. Compared to SCs, it is more difficult for PCs to receive strong banking support in China.
- Difficult acquisition deals. Most Chinese MNCs who make merger and acquisition attempts are taking on especially difficult deals, because there are fewer good assets to be taken over. Most targeted compa-

nies are either losing money or have already gone bankrupt.

- Political resistance. For “reasons” of ideological differences or because of “worrying” about harm to economic security in target counties, the ODI activities of Chinese MNCs have sometimes been obstructed by host governments. For instance, the purchase by CNOOC (China National Offshore Oil Corporation) of Unocal Corporation, an American oil company, had already been agreed to by both sides, but because of the intervention of U.S. Congress, CNOOC had to abandon the deal.
- Cultural misunderstanding in the host country. Especially the acquisition of a company in foreign country by a Chinese MNC could cause a lot of misunderstanding by people in the host country about the company’s motivation and the future of the acquired company, such as a possible shutdown after technology transfers, the reduction of work places, etc.

Table 5: Difficulties during internationalization for Chinese companies

External factors	Lack of financial support; Less good assets as acquired targets; Misunderstanding by target society; Political resistance.	Political influenced strategies.
Internal factors	Unclear internationalization strategy; Lack of understanding of target markets.	Cultural barriers; Maladjustment to institutional environment in target country; Lack of management capability for global business; Lack of collaborative business models; Preferring short-term profit.
	Pre-settlement	Post-settlement

Source: Chris and Martyn, 2006; Wu and Chen, 2001; Hemerling, Michael and Michaelis, 2006; Sohm, Linke und Klossek, 2009, p. 54)

Internal problems *before* settlement:

- Unclear internationalization strategy. Many Chinese MNCs have not developed a systematic internationalization strategy before going global. They have some blind spots which affect their understanding of what it means to establish an overseas subsidiary. When they were still unclear about why, where and how they were investing overseas,

they reached their decision to invest abroad. Furthermore, some Chinese MNCs who pursue company acquisition in a foreign country have not clearly defined the role of M&A in their internationalization strategy. They tend to respond opportunistically to deals as they become available.

- Lack of understanding of target markets. Many Chinese MNCs did not make a full analysis about their investment in the target country ahead of time. Also they did not research the target market sufficiently, or its customers, competitors, distribution structures and regulatory environment.

Normally, establishing a subsidiary in a foreign country is relatively achievable for Chinese MNCs. However, after establishing an overseas subsidiary, Chinese MNCs face a harder challenge of continued business development in a foreign country.

External problems *after* settlement:

- Political influenced strategies. Political influences come not only from China, but also from the political environment in the host country and influence the international strategy of Chinese MNCs, especially in countries whose politics are uncertain.

Internal problems *after* settlement:

- Cultural barriers. The cultural differences, and also language barriers are often the first difficult obstacle for Chinese MNCs to overcome.
- Maladjustment to the institutional environment in the target country. After entry into a market, it is also very important to learn the institutions in the host country, such as the structure of its labor market. For example, TCL has failed to integrate the German company Schneider and French company Thomson, both acquired by TCL. One reason for that was that TCL neglected the labor regulations in both countries.
- Lack of management capability for global business. Chinese MNCs have lower management standards than Western MNCs. Their management information systems, governance structures, managerial skills and corporate process are less well developed than large global firms. They are also relatively inexperienced at managing businesses

across diverse markets. But they make less of an effort to investigate other countries' experience or learn from their strengths.

- Lack of collaborative business models. Some Chinese firms have not made an effort to develop business models with other companies. These models could contribute to build capacity and develop business practices sustainably in recipient economies.
- Preferring short-term profit. Most Chinese MNCs favor short-term profit and diversification of their business rather investing in long-term technological development and innovation.

In this paper, internal problems after establishing of a subsidiary are the main issues in empirical case studies. We will look at which problems the Chinese companies have afterwards and how they resolve them. Additionally, external factors causing difficulty for Chinese companies in Germany will also be examined.

4.6 Discussion

Looking at the capability of Chinese MNCs to invest overseas, they lie far behind MNCs from industrialized countries. Despite many failures in overseas investment, ever more Chinese companies try their luck in this arena and strive for success. However, some companies make the same mistakes as their forerunners. It appears that many have not learned from the failures before them.

To help avoid failure as much as possible and improve the possibility of success, some scholars give suggestions for Chinese MNCs. For example, Arthur Yeung (2005) suggests that the most important factor for Chinese companies going global more successfully is building organizational capability for globalization. Moreover, he has also proposed two other determinants for Chinese companies who will go or are going global. The one is that "Chinese companies should clarify their own strategic intention before going global". It is about the question "*why to go global*". Another one is to answer the question "*how to go global*". They should find out the suitable entry model to invest in foreign markets. Yeung thinks that building organizational capability takes much longer than achieving the latter two determinants. It pertains bettering their human resource management to attract global talent, developing a global mindset and establishing a governing, systems and organizational structure supporting

globalization. Finally, he suggests Chinese companies should add capabilities gradually to reduce the risks of internationalization. This suggestion is similar to the globalization strategy pursued by Haier (Liu and Li, 2002).

However, a few questions have not been answered from the research results of these scholars. Chinese MNCs have mainly pursued a catch-up strategy. Some scholars assert that the Chinese companies were forced to assume a place as an international actor in the world market, for instance Chen (2004). With such a strategy, do Chinese companies have enough time to build their globalization capabilities? Were some CEOs of Chinese MNCs so rash that they ignored the failed attempts of their forerunners and then made the same mistakes? What were the reasons?

5. Cultural context—China and Germany in comparison

After setting up in a foreign market, the most important task of a Chinese MNC is to further develop the business of its overseas subsidiary. In this early stage, the first difficulty for Chinese MNCs is to overcome the environmental differences between two countries. The differences exist not only outside of the company, for example the labor situation and political environment, but also inside the company. For instance, regardless of the mode by which Chinese MNCs entered into the host country, most of them recruit their labor force from inside the country. Both sides must face differences in management style, business philosophy, work attitude, and so on. As discussed in Chapter 2, these differences can be traced to cultural differences between the two countries. It has been mentioned that cultures between two countries cannot be compared systematically with some criteria. In this section I will only discuss big cultural differences based on the research results of Hall, Hofstede and Trompenaars, to show the possibility of “cultural clash” occurring during the Chinese MNCs’ internationalization in Germany.

5.1 Definition of Culture

The discussion about “culture” is quite complex. Many scholars have defined the term of “culture” and analyzed it from different perspectives. Their research on the issue of “culture” focuses on inter-cultural aspects, comparing cultures differences, which is very popular now. They have also developed diversified research concepts and models.

As stated by Ripple and Seipel (2008, p. 14), there are many definitions of the term ‘culture’. This means there is a lot of complexity and non-clarity about its meaning in academic circles. Based on the work of Berry et al. (1992), Rippl and Seipel (2008, p. 15) have outlined six types of cultural definition (s. T.6). These six types can be sorted into two overarching definitions. We can call them the *narrow* sense and the *broader* sense of culture. The *narrow* sense of culture includes a series of “soft” factors such as belief, art, mentality, morality, customs, distinct attitude and knowledge, etc., which distinguish one group of human beings from another. These “soft” factors may be produced by the socialization process, or passed on from previous generations. In the *broader* sense, culture is defined as a ‘term’ embracing all things. According to Huntington (2000, quoted from Rippl and Seipel, 2008, p. 21), “if culture includes everything, it explains nothing”. As a result, in this paper I will focus on

the term 'culture' in the narrow sense of the term and discuss it using the definitions of several scholars. For example, Hofstede (1984, p. 21) looks on culture as "the collective programming of the mind which distinguishes the members of one human group from another ... Culture, in this sense, includes systems of values, and values are among the building blocks of culture". Likewise, Randlesome et al. (1993, p. xi) defines culture succinctly as "the state of intellectual development among people".

Wuthnow and Witten (1988; quoted from Mead, 2005, pp. 7–8) has extended the unstated definition of culture to a more explicit definition embracing 'material' culture, religion, political and economic ideology:

- The 'material' culture is not made of real "material", it just means that some "materials" such as food, technology, sport, and so on, reflect the attitude or values of a group of human beings.
- The religion practiced by the group may express values and clearly influences beliefs and attitudes.
- Political ideology: Political leaders commonly legitimize their regimes by claiming that their system provides a genuine expression of the majority culture. Any admission to the contrary is extraordinary. In the stable Chinese political system the relationship between culture and the political ideology is often tight. Reviewing the past 30 years in China, proceeding every step toward in-depth reform there was a change in the thinking among the politicians which influenced by the political ideology. The expression of Deng Xiaoping, "It does not matter if the cat is black or white so long as it catches mice", continues to influence the business philosophy of Chinese companies to this very day.

Table 6: Definitions of culture

<p><i>Descriptive Definitions</i></p> <p>Culture is understood as “a comprehensive totality” (Kroeber/Kluckhohn, 1952). Such a definition is very broad and includes all aspects of human life. This sort of definition often can be found in anthropologic or ethnographic studies. For example, Tylor (1871) defines culture in a wide definition as “... that complex whole which includes knowledge, belief, art, morals, law, custom, and any other capabilities and habits acquired by a person as a member of society”. Similarly the ethnologist Herskovitz (1955, p. 33), describes culture as: “the part of the world made by humans”.</p>
<p><i>Historical definitions</i></p> <p>Historical definitions stress traditions and cultural inheritance as an accumulated “memory” of a society. So, for example, Linton (1938, p. 78) defines culture as: “the total social heredity of mankind”, as knowledge stocks which are passed on from generation to generation.</p>
<p><i>Normative definitions</i></p> <p>When employing normative definitions, collective rules, norms and ideals with which a group is connected are stressed. An example of reference points here are constitutions or laws. Collective actors (governments, parties, organizations) bear responsibility for upholding these norms. This definition refers to codified regulations.</p>
<p><i>Subject-referred definitions</i></p> <p>Subject-referred definitions focus on psychological attributes, which are recognized as outcome of a socialization process. They aren’t interested in individual cognition or orientation, but rather things shared by the group. Smith and Bond (1998, p. 69)’s definition: “cultures are systems of shared meanings”. The concept of “shared values” can be also found in Schwartz (1992) and Hofstede (1980). Also Huntington (2000, p. XV) as follows: “we define culture in purely subjective terms as the values, attitudes, beliefs, orientations, and underlying assumptions prevalent among people in a society”.</p>
<p><i>Structural definitions</i></p> <p>In framing this discussion of culture, structural manifestations are included in the definition. Included in this are the specific patterns, institutions and roles which structure the social relations of the respective groups. Descriptive definitions of mental, symbolic and structural elements also play a role here.</p>
<p><i>Genetic definitions</i></p> <p>Culture is understood here as the outcome of humans adjusting to natural facts. An environment results, not a natural one, but one made by human beings. Culture is the outcome of creative social processes which are typical for one kind of human and distinguish them from the other kinds of humans.</p>

Source: Rippl and Seipel, 2008, p. 15.

5.2 The classical models of intercultural comparative research

Currently, the three most well-known research models for cultural comparison are Hall's four-dimensions-model, Hofstede's five-dimensions-model and Trompenaars' seven-dimensions-model.

As one of the founders of intercultural studies, Edard T. Hall has developed four dimensions for cultural comparison that are understood as a general orientation to the subject. His dimensions of cultural comparison have been developed from his research on intercultural communication situations. His model embraces the following four dimensions (Hall and Hall, 1990; Rothlauf, 2006, pp. 25–29; also cf. Syarief, Giard, Detrie and Kcbeath⁷):

- *Context orientation.* This dimension refers to the amount of given information in communication. The extent of cultural context employed depends on the amount of information hidden in the context of the message but not transmitted by communication. In this way, in a high context culture much meaning is implied by the context of the communication. On the contrary, in a low context culture most meaning is directly and explicitly given to the other subject per the message communicated.
- *Space orientation.* Hall means that the various cultures put a different emphasis on an invisible boundary where the subjects of communication will not step over. Hall has identified different forms of the boundaries:
 - Territoriality—including “ownership” and extending to the communicate power.
 - Personal space—the invisible circle where the person conducts and the other one is not allowed to enter into without permission.
 - Multisensory space: referring the unconscious cultural rules about what is too loud and intrusive.
 - Unconscious reactions to spatial differences: the distance kept during the conversation can influence the response a person has to the speaker and to the conversation.

⁷http://0/www.idemployee.id.tue.nl/g.w.m.rauterberg/conferences/CD_doNotOpen/ADC/final_paper/013.pdf.

- *Time orientation.* Hall differentiates his time orientation dimension with polychronic time and monochronic time. Polychronic time is characterized as simultaneous and concurrent. Monochronic time is characterized as being sequential and lineal. For example, the polychronic people do many things at once and are highly distractible and subject to interruptions. The monochronic people do one things at a time and concentrate on the job.
- *Speed of messages.* With this dimension Hall explains the different speeds of coding and decoding information from the messages during communication. There are messages that are classified as fast message (such as headlines, cartoons) and slow message (such as works of arts, deep relationships) in different cultures.

The cultural comparison model of Hofstede is used by many scholars. He studies the intercultural comparison with five dimensions⁸:

- *Power distance.* “It is the extent to which the less powerful members of organizations and institutions (like the family) accept and expect that power is distributed unequally” (Hofstede, 1983, p. 419).
- *Individualism versus collectivism.* That is the degree to which individuals are integrated into groups. Hofstede (1980, p. 419) says individualism “is the tendency of people to look after themselves and their immediate family only”.
- *Masculinity versus femininity.* Masculinity is defined by Hofstede (1980, p. 420) as “a situation in which the dominant values in society are success, money and things”. Its opposite femininity is described as “a situation in which the dominant values in society are caring for others and the quality of life”.
- *Uncertainty avoidance.* It is about “the extent to which people feel threatened by ambiguous situations” (Hofstede, 1980, p. 418). It deals with a society's tolerance for uncertainty and ambiguity.
- *Long-term orientation versus short-term orientation.* The values of this dimension are found in the teachings of Confucius and describe the

⁸ The results of Hofstede were of his study of the American computer firm IBM with 116,000 questionnaires in 60 countries (cf. Rothlauf, 2006, p. 29).

time horizon of a society. With a long-term orientation, people emphasize the consequence of an action on the future. The important values for them are thrift, perseverance, and a capacity for adaptation. The values associated with short term orientation have more to do with the past and present, and include respect for tradition, fulfilling social obligations, and protecting one's 'face' (cited from Hofstede's website⁹).

Like Hofstede, Trompenaars has also researched intercultural comparison with enormous questionnaires and developed seven dimensions for his model¹⁰ (Hodgetts, Luthans and Doh, 2006, pp. 109–115; Rothlauf, 2006, pp. 39–46; also cf. some website¹¹):

- *Universalism versus particularism.* Universalism is about finding broad and general rules which could be applied everywhere without modification. In a universalism culture the focus is more on formal rules than on relationships. Particularism is about finding exceptions. In this kind of culture, the circumstances dictate how ideas and practices should be applied.
- *Individualism versus communitarianism.* Individualism is about the rights of the individual. It seeks to let each person grow or fail on their own, and sees group-focus as depriving the individual of their inalienable rights. Communitarianism is about the rights of a group or society. It seeks to put the family, group, company and country before the individual. It sees individualism as selfish and short-sighted.
- *Neutral vs. emotional:* In neutral cultures emotions are held in check. People don't show their feelings. In an emotional culture, feelings are expressed naturally and openly. People smile a great deal, talk loudly when excited and greet each other with enthusiasm.
- *Specific vs. diffuse:* In what is called a specific culture, individuals are open to sharing a large public space with others and a small private

⁹ www.geert-hofstede.com.

¹⁰ The main difference in research methods between Trompenaars and Hofstede is that Trompenaars has conducted investigations using questionnaires in many different companies in 47 countries. In each country he received at least 50 questionnaires back (Rothlauf, 2006, p. 39).

¹¹ <http://www.suite101.com/content/trade-culture-dimensions-a42575>.
<http://www.provenmodels.com/580/seven-dimensions-of-culture/charles-hampden-turner--fons-trompenaars> .

space they guard closely and share with only friends and associates. A diffuse culture features similarly sized public and private spaces. People guard both spaces carefully, because entry into public space also affords entry into private space.

- *Achievement versus Ascription*: In an achievement culture, people gain status through performance. It assumes individuals and organizations earn and lose their status every day, and that other approaches are recipes for failure. In an ascription culture, the status is gained through other means, such as seniority. It assumes status is acquired by right rather than daily performance.
- *Sequential time orientation versus synchronous time orientation*: In sequential cultures, people tend to do one activity at a time. Appointments are strictly kept, with a strong preference for following plans. In synchronous cultures, people usually do more than one activity at a time. Appointments are approximate and may be changed at a moment's notice.
- *Internal vs. External*: In an internal culture, people believe that what happens to them is their own doing. An external culture is in which the environment shapes their destiny. Because they don't believe they are in full control of their destinies, people in external cultures often adapt to external circumstances.

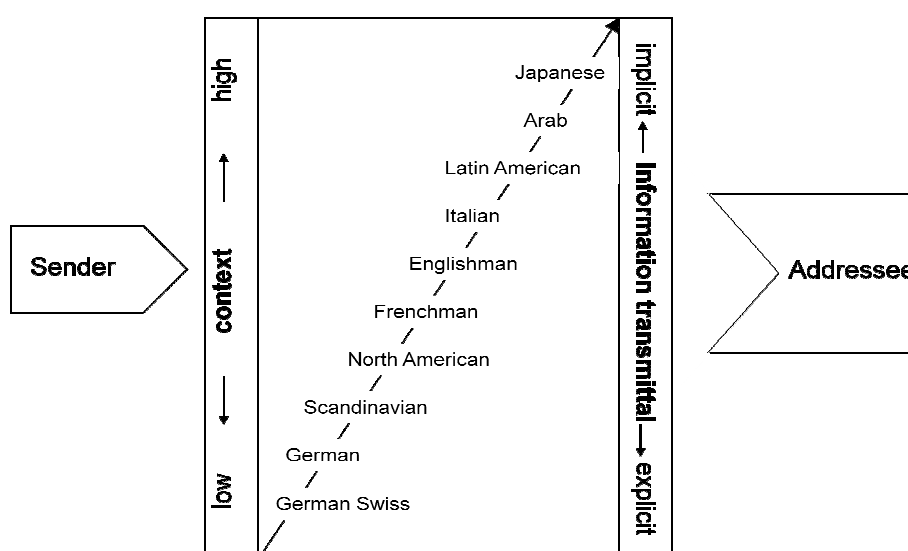
If we look into the details, we see that there are similarities between the three models, such as "space" used by Hall and "specific versus diffuse" used by Trompenaars. Hofstede and Trompenaars both use the terms "individualism and collectivism and communitarianism". There are many things to be praised in these three classical models, but also some points to be criticized. Hall's model is considered a general orientation, but he has not estimated all four dimensions by studying different cultures (Rothlauf, 2006, p. 28). The models of Hofstede and Trompenaars also face the unavoidable flaws seen in quantitative research. However, Hofstede's enormous use of questionnaires makes it possible to systematically rate the countries with different criteria and to compare them (Rothlauf, 2006, p. 35). Trompenaars' results relate to the business culture in high degree (Rothlauf, 2006, p. 46). In any case, with the study results of these classical models in the next section I will examine the cultural differences between China and Germany.

5.3 Cultural differences between China and Germany

Differences in Hall's study

The most important dimension in Hall is “context orientation” (Rothlauf, 2006, p. 28). This is the only dimension that Hall has used empirical study to compare cultures with, at least the only factor he studied I have seen empirical results from. In Figure 9, the countries have been ranked according to their degree of ‘context orientation’. The German culture is classified as one with almost the lowest context orientation of all. The Chinese culture has not been ranked, but I assume that it will be near to the Japanese culture with rather high context orientation.

Figure 9: Low- and high-context cultures in Hall' study



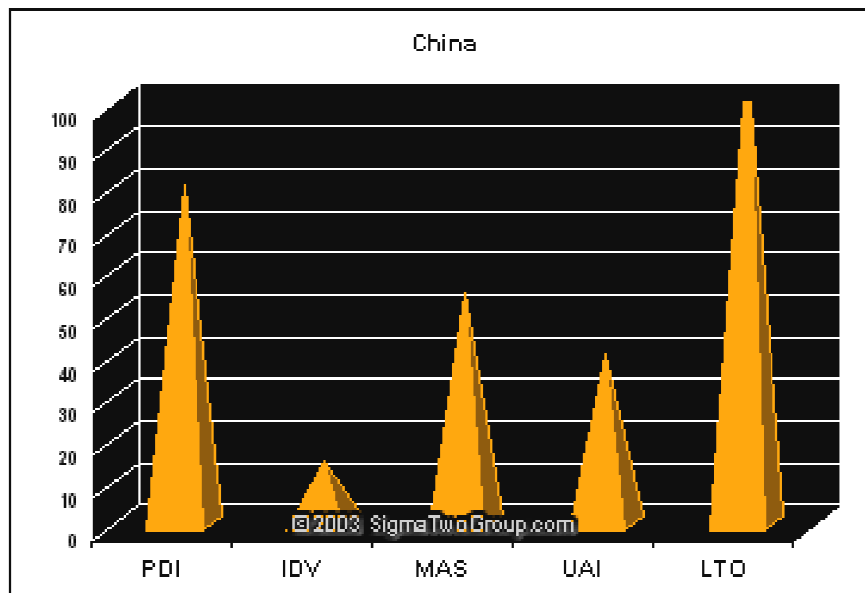
Source: Rothlauf, 2006, p. 26.

Differences in Hofstede's study

As shown in Figures 10 and 11, the results of Hofstede's studies demonstrate that a large cultural divergence exists between China and Germany. The two countries have only dimension where they have a similar ranking—masculinity, a score of about 50 for China and 60 for Germany. They both show tendencies to a masculine society despite a difference in the rankings. Apart from that, the scores for both countries on the remaining four dimensions are highly differentiated. Chinese society emphasizes strongly collectivistic behavior (10) and is organized with relatively large power distance (78). The Chinese feel less threatened when faced with ambiguous situations. This may explain why

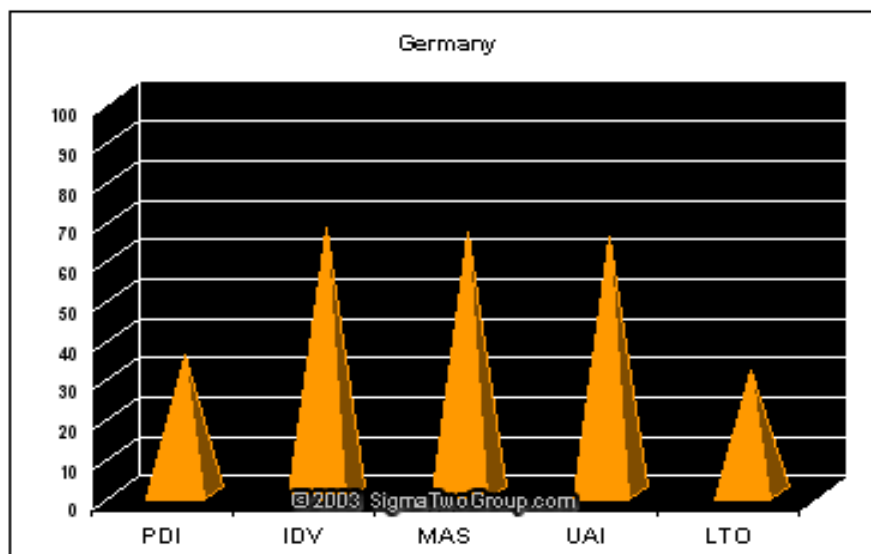
Chinese companies have an advantage in investing in an uncertain market. Their rankings show that the Chinese are long-term oriented and they are distinguished by thrift and perseverance, conclusions also drawn by Li (1993). Compared to China, German society is more individualistic (64) and egalitarian, with a lower power distance (30). They tend likely to avoid uncertainty (60) and operate with a short-term orientation (27).

Figure 10: Hofstede's Cultural Dimensions about China



Source: www.geert-hofstede.com. PDI: Power distance index; IDV: *Individualism*; MAS: Masculinity; UAI: Uncertainty avoidance; LTO: Long-term orientation.

Figure 11: Hofstede's Cultural Dimensions about Germany

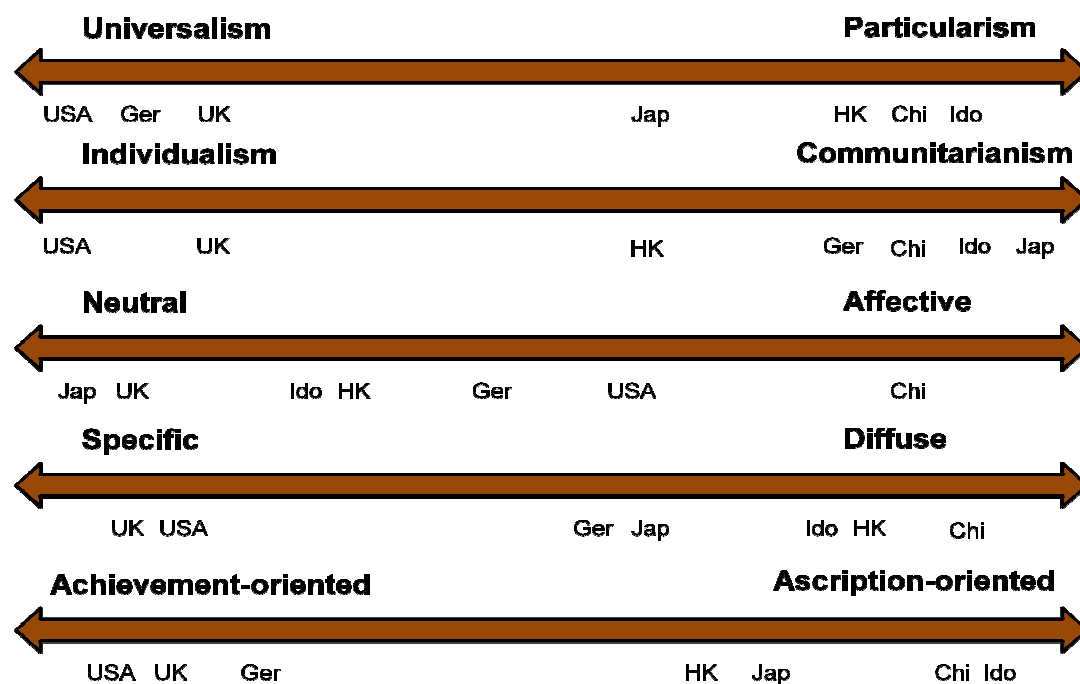


Source: www.geert-hofstede.com.

Differences in Trompenaar's studies

Figure 12, which is from Hodgetts, Luthans and Doh (2006, p. 111) demonstrates the differences of both cultures according to Trompenaar's study. Not all of his seven dimensions have been examined empirically. This figure only shows the results of five dimensions. The largest differences are revealed in the dimensions of *universalism versus particularism* and *achievement orientation versus ascription orientation*. German culture emphasizes general rules and laws much more than Chinese culture, and assigns more weight in gaining status. In the other dimensions *neutral versus emotional* and *specific versus diffuse* the value differences are still large but smaller than the others. One interesting thing is that value of the dimension *individualism versus communitarianism* in German culture is close to the value in Chinese culture. However, Hofstede uncovered a large difference in this dimension.

Figure 12: Trompenaar's relationship orientations on cultural dimensions



Source: Hodgetts, Luthans and Doh (2006, p. 111).

These three models demonstrate large differences between German and Chinese cultures. When these two different cultures meet, cultural differences are bound to cause problems. People have different approaches to these cultural or difficulties, with different consequences.

5.4 Possible behaviors and outcomes in intercultural encounters

From the large cultural differences between China and Germany, a cultural clash is unavoidable when Germans and Chinese interact on the job. It can be said that the way cultural differences are managed will determine the performance of MNCs in foreign countries. Different outcomes result from the different methods of dealing with culture clash. Trompenaars and Woollians (2003) have suggested four possible ways of handling cultural differences, and their expected results:

- a) *Ignoring other cultures—culture wholly transferred from stranger.* By this type of managing culture differences the stranger stands on his dominant point: “I will do it my way”. He sticks to his own cultural standpoint and makes decisions in the belief that his values are the best. He doesn’t respect or recognize other cultures. The result is that he transplants his original and successful approach to the foreign subsidiary (Trompenaars and Woollians, 2003, p. 39).
- b) *Abandon own orientation—host culture wholly preserved.* The second type of response of a foreigner to cultural differences is to give up his own cultural standpoint and take over the existing culture completely in the host society. He sets up with the motto—“when in Rome, do as the Romans do”. This response may on the surface show entire respect to the host culture, but mostly with pretence, not real conviction, and that won’t go unnoticed. It will cause people of the other culture to mistrust (Trompenaars and Woollians, 2003, p. 39).
- c) *Compromise—both cultures co-existing with each partially withdrawing.* With this diplomatic approach both sides can avert a direct cultural conflict and achieve a dynamic balance of interests. But such an approach cannot result in a win-win solution in which both groups are content, since both groups will have to give something up (Trompenaars and Woollians, 2003, p. 40).
- d) *Reconciliation—birth of a “third culture”.* This approach is more active than compromise. The stranger doesn’t ignore his own cultural position and that of the other. He starts from his own standpoint and then accommodates the viewpoint from another group when a cultural conflict arises. He achieves an effective reconciliation with the other group.

Meanwhile, through the culture clash and interaction between the two groups, their cultural orientations have been changed to some extent too (Trompenaars and Woollians, 2003, p. 40).

The consequence of cultural clash is interesting not only for the company itself but also for the society, because its influence can gradually spread to other social circles, such as political institutions, banking, trade unions, etc. At the very beginning, the cultural clash may be caused by a different management style. The internationalization of Chinese companies in Germany means that German workers and managers in the subsidiary have to work under the leadership of a Chinese 'chief' who may have a different managerial style and skills. In the next section I will discuss the ideal management models of Chinese companies and German companies.

6. Typical management models of Chinese and German companies

In this section, some characteristics of the management models in China and Germany will be examined individually, not as a “comparison”. When we talk about a management model, it is always hard to ascertain to what extent the model has been influenced by national history and culture. And we also have to look at to what extent the Chinese culture has been changed in the globalization progress. Here I will only describe the “ideal” management models of Chinese and German businesses. As Hofstede (1991, p. 12) says, “In research on cultural differences, nationality, the passport that one holds should ... be used with care. Yet it is the only feasible criterion for clarification. Rightly or wrongly, collective properties are ascribed to the citizens of certain countries; people refer to ‘typically American’, ‘typically German’, or ‘typically Japanese’”.

6.1 Management of Chinese companies

Most scholars researching Chinese capitalism assert that Chinese capitalism is rooted in Chinese culture, in which the family plays an important role. Only a few researchers, such as Brown (2000, p. 30), Wong (2000) and Chan (2000), believe that business forms depend not only on cultural roots, but also on institutional choice and contingency. Taking Brown as an example, he concludes that “the Chinese firms’ organizational structure and the reasons for its survival cannot be explained by existing theories of the firm and of competition, ... The situation is more complex. Chinese enterprises are shaped by family politics and their relationships with the state and political elites. The rapidly growing economies of Asia and in particular the internationalization of production by Western and Japanese multinationals concentrated in the region, have also determined the form of Chinese capitalism”.

Because of the complexity of social systems and historical contexts, it is not sufficient to link religious norms with the economic behavior simply and directly. As Redding points out (1990, p. 52), “the more debilitating effects of Confucian traditionalism have either been shaken off, counteracted, or subtly amended, for most of the Overseas Chinese”. In mainland China, traditional cultural values changed because of industrialization and the rising anonymity of big cities (Rothlauf, 2006, p. 339). But there is no doubt that traditional Chinese culture still remains and impacts daily life, thereby also influencing Chinese business behavior. This paper will discuss the cultural roots and charac-

teristics of Chinese management style, not in a systematic way, but examining the particular cultural norms in China.

6.1.1 Confucianism in China

When seeking Chinese cultural roots, we should look at the prevailing Confucian ideology, whose founder Confucius lived between 551 and 479 B.C. and whose ideas were adopted as state orthodoxy during the Han dynasty which lasted from 206 B.C. to 220 A.D. In addition, Taoism and Buddhism have also influenced Chinese culture (Redding, 1990, p. 50; Rothlauf, 2006, p. 336). My view is that Confucianism should be considered as a sociological system, whereas the latter two are religions. The following section will briefly outline the central tenets of Confucianism.

Confucianism underwent a long process from its founding to being rooted deeply in the Chinese social order. What allowed Confucianism to become the dominant ideology in China for about 2000 years should be counted were the choices of the rulers and the social situation. To explain the process by which Confucianism influences Chinese culture and social systems, based on the analysis by Redding (1990, pp. 43–49), I would like to introduce three words—*“family”*, *“role”* and *“virtues”*.

Family

For a long time China was an agrarian state. The lower standard of level, as well as natural and social uncertainty, required most people to rely on group cohesion based on the *“family”* unit. The *“family”* was the basic group in society to protect against outside threats or obtain economic resources to secure a better life. On the other hand, politicians looked on the *“family”* as the most important tool to govern effectively, support the social order, and maintain its power status indefinitely.

Role

In China, *“the society is constructed of morally binding relationships connecting all. The individual is instead a connection, and the *“totalness”* of society is passed down from one binding relationship to the next”* (Redding, 1990, p. 44). The individual has not been looked upon as an independent actor in the universe, but also tightly intertwined with other human beings. The value of an individual can only be realized in the social relationships to which he belongs.

In other words, his value depends on the acknowledgement of other people. So people must play their *role* orderly in these relationships. In the “family” model the “role” of a person is based on six relationships, that between ruler and subjects, parents and children, husband and wife, sibling and sibling, friend and friend, and master and servant, which comprise all of the possible social circles people experience. Confucius has proscribed rules for these relationships with virtuous conduct necessary for being a “good” man. “In China the state has not traditionally maintained order by jurisdiction” (Redding, 1990, p. 45). The virtues of Confucius were also not codified as a civil law. However, the rulers introduced two crucial components from Confucian philosophy to help maintain the stability of society. One is *teaching* to get people to understand and conduct their prescribed roles well; the other one is punishment—to make them fear not living up to expectations, so as to ensure the prescribed role behavior firmly (Redding, 1990, p. 45).

The crucial virtues of Confucius

The basic building block of Confucian order is the family. Among family relationships, that of parents and children is the most important. “If that is established, other relationships begin to fall naturally into their important but secondary places” (Redding, 1990, p. 49). The central feature in the parents-children relationship is *filial piety*. This is also considered as the most important of all virtues, as a proverb in China says: “Filial piety tops all virtues”. To imprint family life with filial piety, Confucius defined two central virtues—*ren* and *li*, and was determined to build up them in the character of people.

Ren: is often translated as “human-heartedness”. Based on the work of Carmody and Carmody (1983, p. 135), Redding (1990, p. 49) summed up *ren* as humaneness—what makes us human. “We are not fully human simply by receiving life in a human form. Rather, our humanity depends upon community, human reciprocity. Against individualism, it implied that people have to live together hopefully, even lovingly.” *Ren* means noble character and includes fairness, obligation, benevolence, charity.

Li: can be called good manners, or gentlemanly conduct. *Ren* refers more to man’s thoughts, and *li* is more about actions. It is connected to propriety, politeness, ceremony, worship. “It provides the lubrication necessary to reduce social friction and it fosters the sublimating of self-indulgence in daily interaction” (Redding, 1990, p. 49).

In addition to these two terms, Confucius also talked about three other virtues:

Yi: honesty and uprightness, doing one's best, loyalty, conscientiousness, reciprocity, altruism and consideration for others.

Zhi: wisdom, knowledge.

Xin: faithfulness and integrity, trustable.

These doctrines of Confucius were not only incorporated into the daily life of the Chinese people, but also the Chinese business system. In Chinese companies—both private and state-owned—the organizational perception is strongly influenced by the term 'family'. In the Chinese PCs, the family business still dominates the organization and management model. This will be discussed further in what follows. The SCs have adapted the term 'unit' (*danwei*) to build a 'family' climate (Schlevogt, 2002, p. 82). In such a 'family' model, the virtues of Confucius have also influenced the defined role of managers and workers. Stressing the social network and keeping face might evolve into a concept of human beings being bound to the universe and other human beings. The significance of the 'family' could lead to respect for seniors and hierarchy, and also to responsibility of caring for the interests of the other members of the group. These characteristics are considered the basic elements of the Chinese management model.

6.1.2 Chinese cultural elements influencing management model

There are extensive studies analyzing how Chinese culture influences its business system. Some of them have traced the characteristics of Chinese management to its cultural background. In analyzing the Chinese management style, Schlevogt (2002) and Lu (1996) have employed four elements of Chinese culture.

1) Face

The term 'face' (*mianzi*) is an important factor. It is very important for a gentle person to "keep face" in China (Bond and Lee, 1981; Ho, 1976; Hu, 1944; Redding and Ng, 1982, p. 203). "Face" could be translated into "honor, good reputation or respect". When equated to Western values, face is very similar to the notion of reputation.

Confucianism asserts that a human is not an independent individual, but exists in a circle consisting of other people and the material world. His value de-

pende to a very high degree on the acknowledgement by other people. Thus, Chinese often emphasize “gaining face”, as Hu (1944) writes, by personal success and ostentation on one side, and avoid “losing face” by revealing one’s negative actions or deeds. Gentlemanly conduct also means showing respect to others, i.e. “giving face”. Moreover, people should behave carefully in regards to other’s weak points or mistakes, called “saving face”.

Therefore, directly derived from “keeping face” is the group pressure Chinese feel to a high degree and the great desire to achieve a high position in life (Schlevogt 2002, p. 40; Lockett 1988, p. 489). Compared to Western managers, losing face is more important for a Chinese manager and leads some of them to become expert at power games (Hwang 1987).

2) Respect for age and hierarchy

In the family relationship of parents and children, Confucianism emphasizes that the latter must respect their parents submissively. This cultural characteristic is seen in daily social interactions as a great respect for age, hierarchy, and authority. It originates from the Confucian concept of *li* or *filial piety*. The decisions of those more senior are reinforced by teachings on ‘filial’ (*xiao*) deference, which disciplines women, younger men, and non-family members alike within the Chinese business family (Nonini, 2003).

Some scholars see this respect for seniority leading to a strong hierarchical orientation in China (Davis, 1997; Smith, Peterson and Wang, 1996). A strong hierarchical orientation will lead to a relatively high degree of centralization (Hofstede, 1980, p. 135). In China, this cultural characteristic leads to management practices such as centralization in decision-making and vertical communication with the authorities, in addition to a centralized state system—the government plays a key role in economic arena in China (Lu, 1996, p. 13). Among Chinese enterprises from the mainland, compared to state enterprises, private enterprises place significantly more emphasis on respect for seniority. Private ownership is positively associated with an emphasis on respect (Schlevogt 2002, pp. 79–80).

3) Social network

The third element emphasized in Chinese culture is the connections of a person to his social environment, including the material world and human beings. Personal connections feature prominently in the description of Chinese busi-

nesses (Davies, 1995). In Chinese culture, it is claimed that the universe is a “totality” including all things. Person by himself cannot reach his full potential. He is not an independent individual, but rather a link in the “totality”. His value is related to his social circle and the world. Therefore, Chinese consider building up a wide and tight social network as a very important task in life.

The intricate networks of Chinese life are primarily based on the rule of “reciprocity”—and are a significant factor not only in familial relationships, but also between friends. Chinese look on their effort to build up a social network not just as social intercourse, but also as a “social” investment for the long term (Pye, 1992). This investment is sometimes intentional. They attempt to get help and support from others, although a considerable part of their effort is long-term oriented. They engage in social activities without a clear requirement for “reciprocity”, but with the thinking—“Maybe I will need help sometime”, or “Better to get to know someone new than to stay at home”.

The network developed by the parents can be also inherited by the children. The “transmission” is mainly based on the principle of “reciprocity”. It is necessary for the future career development of children, and is usually initiated by businessmen. If the second generation is going to take over a business from the parents, as important as hard work is for them to inherit the network of their parents, not only the business network, but also the social one, to care for it, and to develop it continually.

The social network built by one person can often be shared with other persons who belong to this circle, even though they aren’t centrally located in the circle and don’t even know the person from whom they need help. They may also receive support from him/her through the efforts of the person who built the network and who makes an introduction. In this case, the responsibility for reciprocity lies with the person making the introduction and the one who received the help plays only a minor role.

4) Group orientation

Chinese view the family as the essential social unit and there is a strong tendency to promote the collective or the group (Lu, 1996, pp. 11–12). Confucian doctrine stresses kinship ties and group loyalty (Wilson, 1970, p. 20). In this “group”, the family members stand in the center. Non-immediate relatives and friends come next. Moreover, in the present-day Chinese countryside, the clan

also plays an important role in social life. The clan as a social circle may be maintained along kinship lines. The members of a clan have a common ancestor who might have lived a thousand years ago. Its main activities are religious assembly, research into clan genealogy, and worshipping the common ancestor.

Commonly, a Chinese social “group” is also called a “big family”. Chinese work and live not only for themselves, but also care for the interest of their “big family”. The motivations for caring for the “big family” are partially out of a feeling of responsibility and partially for “moral” reasons.

In Chinese PCs the most important group is the family. Therefore, almost all of them are family companies. The individual in the family exists for the benefit of the collective group (Schlevogt, 2002, p. 40). Moreover, the meaning of “family” affects the relationships not only in PCs but also in SCs. SCs are also called the “family” of the employees, both of management and regular workers. In a system like this where culture plays such an important role, close ties among family members create strong cohesiveness (Cai, 1997). On the other hand, the manager should not only work for his own benefit, but also for the interests of the other members of the “family”.

Even though, as was stressed in the beginning of this chapter, the Chinese management model is not derived exclusively from Chinese culture alone, it is obvious that these four basic cultural elements had a strong influence on forming the Chinese management style. In the next section we will discuss about how the central characteristics of the Chinese management model are related to these cultural elements.

6.1.3 The central characteristics of Chinese business management

Studies on Chinese business management characteristics draw similar conclusions (Schlevogt, 2002, p. 34), but their analytical results are quite divergent. By systematically analyzing these studies, Schlevogt has developed a model of web-based Chinese management (2002), based on empirical study and supported by questionnaire results. He states that this model doesn't apply to all types of Chinese companies, but only to the majority of Chinese family companies. The Chinese SC management model looks small different to that of PCs.

1) *The management model of Chinese PCs*

Schlevogt (2002, p. 35) illustrates his web-based Chinese management model by looking at four factors—centralized decision-making, informal bureaucracy, enterprise networks and strong entrepreneurship.

a) High level of centralization

The decision-making procedure in Chinese companies is characterized by a high degree of centralization of power in the manager. The power gap between the managers and the rest of the workforce is quite large. It exhibits a top-down command structure leading to a high value being placed on social control (Child 1994, p. 31). This is the result of “respect for the age and hierarchy”.

In Chinese family companies, the decision-making power is centralized in the company founder or his family. They have the last word on most things in the company. This model exists today also in the majority of PCs, as a Chinese scholar, in interpreting the management difficulties in Chinese PCs, pointed out, “in the current situation in China, the board of directors in Chinese PCs is a formalistic device on most occasions. The stakeholders who are holding the largest share have the last word for major decisions”, usually this means the founder or the family who built the company¹². Schlevogt (2002) examined the structural centralization of Chinese PCs and pointed out its advantages and disadvantages:

- Dictatorship. As mentioned, the founder/owner usually holds the major of power and operates as an autocratic dictator in Chinese PCs. When it is necessary to enlarge his management team to further develop the business, the founder/owner shares power usually only with family members or close friends.
- Information control. In such a business situation, the supply of information is often tightly managed. The chief is the information controller, and he decides to what extent he will transmit information to subordinates. It is also related to trust between them. The provision of information is often piecemeal so that the subordinates remain dependent. It can also be a tool for the boss to build trust with subordinates.

¹² <http://info.yidaba.com/201009/261159501002100100021143612.shtml> (accessed at Sep. 26, 2010).

- Decision-making. There are underdeveloped institutional procedures in place in the company to make decisions. Actually, decisions are made usually only after the discussion within the “family”, or are made by the chief alone.
- Lack of an institutionalized succession mechanism. In China today many PCs face this challenge, since after almost 30 years of development, the first generation of managers/founders of companies have become old and must now hand over the companies to their children. The practical issues at work are the differences between the two generations, in their willingness and competence. It is reported that 90 percent of founders are willing to hand over their companies to their child or son-in-law, but 95 percent of the second generation has no interest in taking it on¹³. Furthermore, many children of founders are not competent to take charge of companies¹⁴. These issues affect the survival of many Chinese PCs and often undermine the longevity of Chinese enterprises.

b) Emphasized role of social networks

The role and extensive reach of social networks has been recognized as the best-known attribute of the Chinese business system (Yeung, 2004, p. 26). The cultural emphasis on social networks is also seen in the Chinese business arena. The business network for managers normally consists of employees (internal), customers, business partners and suppliers. The chief of a Chinese PC fills not only the role of business manager. To a certain degree, the engineering competence or marketing skill of a chief is not considered the most important. It might be said that the first task of the chief is to build and care for the social network as “a personal relation spider” (Schlevogt, 2002, p. 37), encompassing not only business networks and subcontracting relationships, but also others with whom the company has a social relationship, such as actors in the political arena. “Through kinship-based cooperation and political economic alliances with host-country powerbrokers ethnic Chinese in East and Southeast Asia are able to overcome host-country hostility” (Yeung, 2004, p. 28). This relationship is especially important for company chiefs today be-

¹³ <http://www.jinluck.com/news/display/article/117374> (accessed at May 28, 2010).

¹⁴ http://news.changsha.cn/china/3/201010/t20101008_1171954.htm (accessed at Oct. 08, 2010).

cause Chinese local governments have tight influence on the economic activities on the micro level. The political support for company is a very important factor of business performance.

Within the company, the social network plays also a special role. Chen (1995, pp. 89–91) has identified five subgroups in Chinese companies that play important roles—core family members, close relatives, long-term employees (honorary family members), distant relatives, and non-related employees. The effect of this network can be seen in an employee's chance for promotion, higher salary, better work situations, etc. For instance, by chiefs being involved personally in management decisions, particularly promotions or appointments to important positions, there is more chance of nepotism, as chiefs pay more attention to the degree of “manager loyalty”, with the result that management positions are filled by persons who have kinship or close friendship with the chief.

However, since about the middle of the 1990s some mainland Chinese PCs have tried the different way of building a modern management system to expand the company's size. They have clearly seen that the family model has become a crucial obstacle to expanding the company. Tasks involved in caring for the social network, such as recruiting relatives of their own, of their friends, or of political contacts, and so on, have damaged the effectiveness of business because many of those chosen lacked competence. The family and friendship-based network limited the ability to improve the management team by recruiting qualified but unconnected managers. The first and most frequently-used measure to change this system was to recruit a “professional manager”. Among these managers some were high-educated individuals with PhDs in economics, top managers from other firms, etc. They were given sufficient power to restructure or reform the management systems of companies. A few years later, this attempt had failed. Opposition against “professional managers” came mainly from the member of the existing social network in companies. Their given interests had been damaged by the reforming measures introduced by “professional managers”. Furthermore, building “trust” with family member was too hard for a new manager from outside of the social circle. This effort is continuing in Chinese PCs. More and more companies have accepted the need to recruit “professional managers”, whether SCs or PCs, listed companies or unlisted, while the social network still continues to

make its mark on Chinese companies. The proportion of “professional managers” who have failed to achieve success is high¹⁵.

Along with increasing globalization, Chinese companies became more and more active worldwide. They face the challenge of developing an international social network. Yeung (2004, p. 68) has looked at three mechanisms Chinese companies are using to tap into the global social network:

- Engaging with international business actor-networks. They hire foreign employees to take part in managing their business.
- Gathering knowledge and experience through international educational institutions. It has been mainly achieved by sending their offspring to study in Western countries.
- Connecting with international organizations and multilateral institutions, for instance, banks.

c) Informal bureaucracy

Chinese PCs seldom make an effort to develop an elaborate bureaucratic control mechanism over personnel (Redding, 1980; Redding and Wong, 1986). The most used method chiefs use to interact with employees is by personal communication. Committees, departmental meetings, and other integration methods are not welcomed by bosses. There are also few standardized procedures for communication or instruction with employees. The manager is on top and all employees are below (Schlevogt, 2002, p. 36). Culture certainly plays a part in this structure. However, it may also be because Chinese PCs are generally small in scale (Redding and Wong, 1986; Redding, 1990; Whitley, 1992). Schlevogt (2002, pp. 67–72) looks at four factors of bureaucracy in Chinese PCs.

- Low level of formalized roles. Most Chinese PCs have a simple organizational structure. The responsibility and authority of each position is not clearly defined. A body of written documents has not been developed to regularize the role of employees. It also lacks a job description for the chief.
- Low degree of specialization. The work of Schlevogt reveals that Chi-

¹⁵ <http://info.bm.hc360.com/2010/06/290919185782.shtml> (accessed at June 29, 2010).

nese PCs engage more specialists for accounting, sales, work-flow planning and administration, and less for maintenance, training and production methods. More chiefs emphasize financial controls matters and pursuing aggressive strategies through sale specialists. “The workers in PCs often possess multiple skills, and therefore may be able to perform elementary maintenance themselves”.

- Low Integration. There are very few coordinating bodies in Chinese PCs, such as committees, personnel liaison, workers councils for bargaining and co-decision making. Either they have not been established, or they are formed ad-hoc.
- Few standardized control systems. Chinese PCs employ few control devices such as management information systems and cost and profit centers. They are also a lack also of institutionalized devices to control or restrain the decision making by the chief.

d) Strong entrepreneurship

Chinese capitalism is actor-centred rather than institution-specific (Yeung, 2004, p. 8). In mainland China, the concept “entrepreneur” had disappeared for about 25 years during the rigorous planed-economy from 1956 to 1980 when all Chinese companies were state-owned. The chiefs of companies were appointed by the government. They were members of the Chinese communist party and military officers. In these years, the chiefs were called “factory director”. Their task was to implement instructions from superior government bodies and achieve their production goals. Entrepreneurship is totally neglected.

Traditional Chinese entrepreneurship was transplanted by overseas Chinese abroad, to places such as to Hong Kong (see Wong, 2000), and later to North-American (see, Wong, 1987; Li, 1993). In Southeast Asia, traditional Chinese entrepreneurship has been transplanted by the Chinese diaspora, most of who began to migrate into Southeast Asia before more than 500 years ago, when the first wave of migration took place during the dynasty change from “Ming” to “Qing” 1644. The major reason for migration was economic pressure (Chen, 1995, p. 72). Today, they have achieved great success in the economic sector. For example, in Indonesia, Chinese diaspora have 2.5 percent share of the total population, but owned 70–75 percent of private domestic capital by

the 1980s. In the Philippines, Chinese overseas controlled 35 percent of local economy with 1.4 percent share of total population by the early 1980s (Chen, 1995, pp.73–77). Currently the majority of research on Chinese entrepreneurship refers to this group.

After the economic reform beginning in 1980, accompanied by the explosive growth of PCs and reform of SCs, the concept “entrepreneur” returned and appeared again on Chinese public media in 1987 (Wu, 2007, pp. 190–191). At that time, an entrepreneur was considered as someone who enthusiastically seized risky commercial opportunities to develop business in such the fierce social transformation China was undergoing (Wu, 2007, pp. 215–218). This image could be applied to the Chinese entrepreneurs on the mainland during the entire whole 30 years of economic reform in China. On the other hand, in such a radically changing society in the economic field and the cultural field, this characteristic is also absolutely essential, for Chinese entrepreneurship to exist and succeed in this arena full of business opportunities. Moreover, just as with Chinese entrepreneurs overseas, they were also known for inner virtue, endurance and business talent (Yao, 1997). Currently, the majority of Chinese companies confront a generation change. The second generation should be taking over managerial duties. To some extent these inner virtues have been lost among the young generation. Most observers point to the lack of proper family education as a reason¹⁶.

When discussing the issue of Chinese entrepreneurship today, it is somewhat said that there is no real entrepreneur in China because businessmen align themselves too closely with politicians, or they do not take social responsibility seriously¹⁷. However, I think that the former issue can be explained by the importance of the social network attribute and the latter more to the slow development of institutions. Considering cultural influences, one can say that Chinese ideal traditional entrepreneurship does indeed exist.

Schlevogt (2002, p. 37) describes three aspects of Chinese entrepreneurship:

- Strategic orientation. Chinese entrepreneurs tend to pursue proactive, aggressive and short-term strategies. They seize the opportunity quick-

¹⁶ http://www.relaychina.org/index.php?c=mien&a=view&id=923&sort_id=5 (accessed at Sep. 3, 2010), http://news.xinhuanet.com/fortune/2010-11/10/c_12758208.htm (accessed at Nov. 10, 2010).

¹⁷ For example, <http://www.21cn.com/weekly/qiyejia/index.shtml> (accessed at June 12, 2009), http://blog.sina.com.cn/s/blog_4c062a780100fag5.html (accessed at Aug. 23, 2009), http://news.cnfol.com/100830/101_1596_8326227_00.shtml (accessed at Aug. 30, 2010).

ly and move fast. They could even be called an adventurous group.

- Decision-making: The chief decides on important strategic moves within days, or sometimes hours (see also Chen, 1995, p. 88). They make important decisions based less on extensive analysis, and more on their own intuition. There are hardly any institutional bodies in the company supervising the chief's decision-making, perhaps because of their feelings toward the owner and authority figures in general. They implement their decisions quickly and take the results into account. Many of these decisions fail, others succeed. This could be also an explanation for the rapid growth of the private Chinese economy in the last 30 years.
- Leadership: Firstly, the leadership style is pragmatic. They decide whether to do something based on how quickly and to what degree it will be translated in economic success. "Reasonableness is more important than reason." Secondly, their leadership style is quite flexible, with loose management controls. Thirdly, it is less participative with less use of group or democratic processes in decision-making. Fourthly, Chinese entrepreneurs often engage in vertical communication. The access to important information, for instance in the financial and operations areas, is rigorously controlled. In addition, "they tend to use force to resolve disagreements, and issue orders and warning to implement organizational changes".

2) *Management model in Chinese SCs*

Schlevogt has also analyzed the managerial characteristics of Chinese SCs, based on his comparative empirical studies among the Chinese PCs and SCs of these four attributes.

Firstly, Schlevogt discovered that Chinese SCs have a higher degree of bureaucracy than PCs. They describe the specific roles of management and employees with more detailed documents—*role formalization* and also the functions are more clearly formulated with formal documents—*specialization*. In SCs they have established many more integrating bodies—*integration*, such as committees, department meetings, board director meetings, shareholder meetings, and so on. The empirical results also show more use of

standardized control systems in the SCs than in the PCs, but the difference is not “statistically significant” (Schlevogt, 2002, pp. 67–68).

Secondly, the management of Chinese SCs tends to use a more decentralized power structure (Schlevogt, 2002, p. 69). This may be due to the institutional character of SCs as a part of the governmental system. The managers of the SCs are after all not the owner of the companies, just directly appointed by the government. However, Wang (2011) depicts a picture of high power centralization in Chinese SCs (cf. the paper in the internet¹⁸). “The management is always top down and the managers are highly respected and rarely challenged”. We can assume that the reasons for this—in contradiction to Schlevogt’s conclusions—might be the restriction of higher level government officials and the distribution of power in the management class. “In state-owned companies, it is always a group of people at the top who make big decisions instead of one individual” (Wang, 2011). Schlevogt’s work pertains to the degree of power centralization in the CEO position in SCs, not the management team.

Thirdly, managers of Chinese SCs don’t demonstrate strong entrepreneurial skills. The Schlevogt study reveals that, compared to managers of PCs, the managers of SCs are more conservative and more interested in cost-cutting strategies and participative leadership. Their decision making is decentralized and cautious and they strive for compromises between stakeholders (2002, pp. 74–78).

Fourthly, managers of both types of companies emphasize social networking. One small difference is that the CEOs of SCs concentrate mainly on developing relationships with the governments because SCs are often vertically integrated into hierarchically organized governmental institutions (Schlevogt, 2002, pp. 38, 79).

Schlevogt has used a quantitative method—questionnaires—in his study. When compared to the work of Huang, Leonard and Chen (1997) and also some research to be found on the Internet, the paucity of Schlevogt’s research can be seen—with a lack of important information and very little background on the social context.

¹⁸ <http://eng.hi138.com/?i28234>.

Huang, Leonard and Chen (1997) have systematically analyzed the decision making model in China, linking it to Chinese cultural roots and the social context. They conclude that the decision making model in Chinese SCs is dialectic. Two totally contradictory characteristics exist in the model at the same time, such as changeability and inflexibility, predictability and unpredictability, complexity and simplicity, risk-taking and safe, conservative and aggressive decision making, fast and slow processes. These characteristics arise from the interaction between Chinese culture and the political system (Huang, Leonard and Chen, 1997, pp. 89–138).

In Chinese culture the model of decision making in SCs depends on the personality of the manager. This relates to the ability of the person to build authority. Huang, Leonard and Chen (1997, pp. 89–97) point to two factors in the cultural context that may account for it. The first is “the idea of ruling by benevolence” with a “moral leader”, rather than the rule of law. The other one is that the Chinese don’t believe in God, and frequently look to a moral leader, usually called “powerful man”, who fulfills the need for an all-knowing guide in life. Therefore, in the SCs, the degree of power centralization doesn’t depend on the official position of the person but on his personal authority. Even though the CEO occupies the top position, he may have little power to make decisions if he has not built authority among the rank and file.

However, the “powerful man” is not completely free to make decisions as he sees fit. Rather, he needs to base those decisions on governmental instructions and advice (Huang, Leonard and Chen, 1997, pp. 97–100). In the Chinese political system, the SCs are part of the governmental system and must act accordingly. One of the main tasks of the manager is to implement decisions passed down from higher level government bodies. “According to the Chinese Entrepreneurs Survey System, the 2003 special issue of Chinese enterprise management follow-up survey showed that managers of state enterprises are still appointed through official channels at a rate of 90%”¹⁹. As an organ of this system, the decisions of SCs are also limited by decrees from political institutions such as government offices, banks, customs officials, etc., and often need to be approved by them before they can be implemented.

¹⁹ <http://eng.hi138.com/?i280861> Analysis of executives of state-owned enterprise management system#

A manager with great authority is able to influence the viewpoint or decision of higher authorities (Huang, Leonard and Chen, 1997, pp. 75–79). He is able to come up with ways of working around decisions he doesn't agree with. It is also possible that he is able to influence decision-making of the higher level government body to change the policy.

Therefore, because of the influence of these two factors, decision making in Chinese SCs often shows two totally different faces, for example sometimes changeability and sometimes inflexibility. Which it will be depends on the political situation or the willingness of a powerful manager (Huang, Leonard and Chen, 1997, pp.100–112). Sometimes the decision is made quickly “when decision making is under the decision maker's control”, but sometime it takes a long time because the decision must be approved by other governmental bodies (Huang, Leonard and Chen, 1997, pp. 135–138). Decision making could be very complex because it involves many groups who jointly make the decision. Usually it takes a long time to understand how and who makes a decision in SCs. The final decision-maker who signs the agreement cannot be involved in every step of every decision. Decision-making can be very simple when people find the right person with the authority to make a decision or the politician who has a great deal of influence on the outcome (Huang, Leonard and Chen, 1997, pp. 122–130).

6.2 Management of German companies

Among western countries, the German economy is looked upon as a distinctive economic form, that of a coordinated social market. It can be considered a different model of capitalism from the liberal, free market economy represented by America. A great deal of research has been done on the German management model, especially after the German post-war economic miracle took place. Up to this point it has been hard to say with certainty to what extent the German management style was affected by historical events or national culture. Here I will merely try to describe briefly the typical German management model.

The current German management model is usually considered that is shaped after the Second World War step by step. The historical study of Pongratz (2002) on the development of personnel leadership—the behaviors of subordinates in German firms since 1933 to ca. 1990—is a useful starting point to have an insight on about the development of the German management model.

As Table 7 shows, Pongratz has divided this time period into three phases—national socialism (1933–1945), early Federal Republic (1945/49 to ca. 1970) and later Federal Republic (ca. 1970 to ca. 1990). In these three stages, he presents subordination behavior in the German companies with three models:

a) Demonstrative model

In this model, the management model mirrors the military system. This militarized organization model in companies could be traced back to the end of the 19th century when the large scale companies joined the German industrialization process. They applied the military model to manage the large number of employees with clear discipline and hierarchical control. The military model influenced industry firms in three areas: the management ideology of the company boss, the regulation of formal company orders and experience in the military as a selection criterion for employees and managers (Pongratz, 2002, p. 42). Before the National Socialist (NS) phase there were clear limitations on the ability to transplant the military model, especially for employees who need to work independently and creatively (Pongratz, 2002, p. 44). Besides, the development of the labor movement led to the requirement of including an interested party in company decision-making that was resistant to the militarized management model (Pongratz, 2002, p. 45).

After the NS rose to power in 1933, they implemented a soldiery management model as the preferred ideology to manage firms. Ideologically, the company was propagandized as a “war front” and mystified as a “fighting unit”. In this model employees must obey managers just like “soldier do officers”, i.e. unconditionally. Interaction between them is characterized by exaggerated behaviors such as one would see in the barracks, designed to demonstrate the respective power relationship and hierarchical positions. The managers often used punishment (Pongratz, 2002, p. 48). In this case, the interests of employees, their wishes and desires were neglected or repressed, so that the NS regime won only a “passive loyalty” from many German (Pongratz, 2002, p. 66).

b) Pointed model

After the Second World War, an abrupt break with NS ideology came about in German society in the political, social, economic, and cultural areas. In industrial firms, people wanted a complete end to management according to the

demonstrative model. Blocking National Socialism and National Socialist management models was possible through prohibitions, internal regulations and the natural caution of employees, but a change of mentality needed a long time (Pongratz, 2002, p. 93). A radical change in management styles was not conducive to continued development, as almost all of that generation of managers had experienced the NS regime and were schooled in the demonstrative model. Even though the Anglo-American personnel management model with its emphasis on “human relations” had begun to be discussed in Germany, it was not that model but the materialization model that had more influence on German management styles in the early Federal Republic until about 1970.

The materialization model eliminated the NS ideology but contained the hierarchical characteristics of the demonstrative model. In this model hierarchy levels are also clearly defined. The relations between managers and employees are correct and formal. The role of managers and employees, and also instructions issued by the manager are formal and detailed (Pongratz, 2002, pp. 70, 74). The manager abandoned the overemphasis on stressing the unequal power relationship and behaved “friendly” and “collegially” towards his employees. Employees were no longer considered soldiers who only had to obey to the officer, but as soldiers who were “delegated with responsibility” (Pongratz, 2002, p. 73). But in this model, negotiation with the manager was not an option (Pongratz, 2002, p. 75).

c) The informed model

From the end of 1960s to the beginning of 1970s, a series of events led to a change in the values held by German society: economic recession in 1966/67, oil shock in 1973, political unrest, the student movement. The younger generation of managers resisted the basic values of the war generation of managers. Naturally, they did not accept the military aspects of the pointed subordination model (Pongratz, 2002, pp. 97–98). Against this background, the Anglo-American “human relations” approach, which had found little support in the early years of the Federal Republic, won a large number of adherents in the 1970 to 1990 time frame.

Table 7: Overview of models of German personnel leaderships

	Demonstrative model	Pointed model	Informed model
Historical phase	National Socialism 1933–1945	Early Federal Republic 1945/49 to ca. 1970	Later Federal Republic ca. 1970 to ca. 1990
Basic direction of development	Re-militarization	Materialization	Psychologization
Use of power code	Excessive emphasis on superiority and inferiority	Clearly desiderate power accents	Weakening of expression of power differences
Expression of power leeway (by leader)	Excessive action of power with exemplary power demonstration	Materially limited exploitation of power leeway	Avoidance of boundaries of power spectrum
Symbolic function of sanction method (by leader)	Pronounced, often arbitrary utilization primarily of punishment	Fair use of negative and positive sanction	Delicately gradual change under emphasis on positive sanctions
Managing personality	Tendency to depersonalization with mood-conditioned outbreaks	Emphasis on material strictness, withdrawnness of personal characteristics	Showing individuality and expressing tolerance
Signaling disparity	Stress of social distance	Change between distance and occasional approach	Signalizing closeness, let understanding be recognized

Source: Pongratz, 2002, pp. 14, 128.

In this phase, employee subordination in German companies is designated an “informed” model. This model didn’t reduce the hierarchical power structure of the “pointed” model (Pongratz, 2002, p. 105), but mixed with the participative involvement of the employees to build a ‘cooperative relationship’. The manager intentionally gave up expressing the power distance and “formed” an asymmetrical status for employees. In the cooperative relationship the manager stood on the sidelines and actively motivated the employees to participate in decision making. In making a decision, the manager cared a lot for the psychological demands of the employees and used learned communication skills to allow the employees to express their ideas, feelings and advice, even though the real participation of employees was limited and the manager made the final decision (Pongratz, 2002, p. 100–101).

In the historical development it can be seen that a clearly defined hierarchical structure has existed as an essential element in the German management model all along. At the same time, German management methods are influenced by the Anglo-American management style. The research of Gergs and Schmidt (2002) and Lane (2000), also show an erosion of the German model to some extent and an Americanization “tendency”. But in general, German management still has its distinct style and cultural norms. Until now, the German management has basic differences with the American model and concentrated on the technology issue. It is “not Americanized. The strategy, managerial system and techniques are not in the foreground (Lawrence and Edward, 2000, p. 99)”. Gergs and Schmidt have compared the typical German management model with the American one (s. T. 8). Based on the description of American management style by Steger (1993) and the research findings of many scholars on the German one, they summarized the ideal German model by using with three terms.

a) Material

German management is very focused on product quality, as well as design, production and service. Today, the label “made in Germany” symbolizes the top quality worldwide. As Warner and Campbell (1993, p. 95) point out, the technical emphasis of German management is not a new development, but can be traced back to the mid-nineteenth century. At that time, people looked forward to the development of a specific German industrial-technical capitalist system emphasizing long-term aims. An important reason for German man-

agement to emphasize high value-added products, high technology and technical innovation in general, was the economic reconstruction after the Second World War. Confronted with a great mixing of peoples caused by immigration from eastern Germany, the experience of starting from starvation-point, a new international and domestic political situation including the loss of diplomatic and military symbols, a very important way for Germany to guarantee national survival and revival was economic development, in particular increasing the export of industrial products. To do that, the competitiveness of German products had to be improved. This obviously meant the continuous development of product quality, design and service (Warner and Campbell, 1993, p. 93).

Table 8: Comparing of ideal American and German management models

	Ideal expression of the American management model	Ideal expression of the German management model
Material	Strong financial terms orientation; Strong marketing orientation; Dominance of commercial qualified management.	Strong production orientation; High weight of research and development; Dominance of technical qualified management.
Organizational	Centralization in company and work organization; Low weight of participative structures; Tendency to mistrust organization or conflict orientation.	Decentralization in company and work organization; High weight of participative structures; Tendency to trust organization / consent orientation.
Temporal	Short-term orientation; Short duration of manager in company; Dominance of horizontal carrier mobility.	Long-term orientation; Long duration of manager in company; Dominance of vertical carrier mobility.

Source: Gergs and Schmidt, 2002.

In German companies, specialized competencies are highly regarded. The majority of managers possess an engineering background (Streeck, 1999, p. 22). "Technical experts have a pervasive influence in German firms and on German managerial thinking" (Lawrence, 1984, p. 98). Many have been highly educated in universities or polytechnics, where they acquired the relevant technical knowledge and functional skills. Some of them continued their studies to the doctoral level. Contrary to the American model, German management puts less stress on financial and marketing competence. They pay more attention to product design, produce and service. They are strong on technical competence and weak on business thinking (Lawrence and Edward, 2000, p. 98). "The idea that a firm is not a 'money-making machine', but a place

where products get designed, made and eventually sold, with profits ensuing, tends in Germany to restrict the allure of accountants and financial controllers and to dignify the makers and those associated with them” (Lawrence, 1984, p. 46).

To obtain advantages in market competition and the struggle for market share, German managers have much more interest in technology innovation and improving products’ quality and service than cost reductions or mergers and acquisition, or other mechanisms²⁰. In this way German managers invest a higher proportion of their profit in research and development.

b) Organizational

German companies are structured without much regard to power relationships and show a tendency to flat hierarchies. But looking back in the post WWII past, German management had an authoritarian-patriarchal style. “On the one side, there were authoritarian leadership regulations and procedures. On the other side, West German management was solicitous and social with their workers” (Gergs and Schmidt, 2002). Based on a series of results from other studies, Gergs and Schmidt (2002) summarized that company organizations have been characterized by intense control mechanisms with high centralization of decision-making structures. This predominant style of German management began crumbling at the beginning of the 1980s. The leadership style in West German companies became cooperative-participative and the organizational structure in companies became decentralized. More managers accepted a team work style.

Participation in trade unions and worker councils to co-determine company decisions became more prevalent. This will be discussed in greater detail in the next section. German companies showed a definite interest in the “stakeholder” model. In this model, a decision should not only be made according to the interests of a manager or employer, but also affects others, such as employees, banks, etc. In decision-making, managers have to take into account the interests of every “stakeholder” of the company. This model, with little control and few central guidelines, also leads to high loyalty among employees and a trust oriented organization.

²⁰ As an example s. Lawrence and Edward. 2000, p. 97.

c) Temporal

The significance of the product for German companies leads to managers with a long term orientation. Few investments are made for short-term benefit. Their promotion of product design and service, production technology innovation, work organization innovation, and research and development reveal their long-term oriented strategy. The majority of German managers work for a long time for their companies. Job-hopping is not popular. They are mostly promoted vertically, even within one department or one functional field (Gergs and Schmidt, 2002). This shows a strong connection of managers to the company.

7. Industrial relations

In this section, we will briefly examine industrial relations in China and Germany. Industrial relations in China will be discussed by looking at two subjects — SCs and PCs. The organizational features and some shortcomings of the system will be described. Then will follow a look at the stage of German industrial relations.

7.1 Industrial relations in China

Reviewing the history since the founding of the People's Republic of China (PRC) in 1949, we see that historical changes in Chinese industrial relations are usually initiated by the Chinese government. The industrial democracy system is part and parcel of the political system and operates under the 'guidance' of the government. The government has strong influence on industrial democracy policy. This history can be divided into three phases (Xu, 2004; Li, 2003).

The first phase is "double-win oriented" industrial relations, which was officially described as "democracy, quality, contract" (from 1949 to 1952) (Xu, 2004, p. 16). This "double-win" policy was directly initiated by the Chinese government as a measure of expediency, because after 12 years of international and civil warfare the economy in China had been ruined and needed a quick rebuild-up. The "double-win" policy was for the Chinese government a valuable and short-term oriented strategy to utilize the employers—'capitalists'—to keep up the normal operation of the companies and help the economy recover (Xu, 2004, p. 16). The mechanisms for this model were "collective agreement" and "employee-employer consultative conference" (*laozi xieshang huiyi*) (Xu, 2004, pp. 18–20). In this policy, equity was not really achieved. In the first two years the employers, with support of the government, had the dominant position in industrial relations. An employee strike wasn't prohibited but was discouraged by the government. The task of the trade unions at that time was to convince the employees to give up striking. Moreover, employees were requested by the government to give up their demands for improving their salary and work conditions (Xu, 2004, pp. 20–26). This situation was changed through a political movement—"five combats" (*wu fan*)—in 1952. The reason for mobilizing the movement was to combat employers who had operated illegally. However, it came to light revealed the real ideological viewpoint of the government was that employers as capitalists were not to be accepted as an

element of the socialistic system and industrial relations between employers and employees was only short-term oriented (Xu, 2004, p. 26). After this movement, even if it was only directed against illegally operating employers, the employees obtained the dominant position in industrial relations. Industrial relations became a component part of the “classic struggle”. The employees dominated the managers in companies. It was difficult to conduct “collective bargaining” (Xu, 2004, pp. 26–30).

The second phase was from 1953 to 1978²¹, when industrial relations in China were defined by Li (2003, pp. 2–5) as a “magnified unitary model” in the SCs in the planned economy system. In this term, all PCs were “reformed” to become SCs from 1953 to 1957. Thus “private” capitalism was eliminated. But this didn’t mean the disappearance of capitalism in China. In a larger sense, China transited into a period of “national capitalism”. In this system, the government—representative of the ‘state’—was the unique “employer” and “rule-maker” for industrial relations. At the same time, the government was also the ‘protector’ of workers’ interests. The interests of labor and enterprises were ideologically identical to those of the government. Under such identification of interests, collective bargaining lost its soil. This system damaged workers’ rights to participate in management. The managers of the companies became employees of the ‘state’ and lost their autonomy for decision-making about production plans, recruitment, etc. Their role was changed into one of “waiters”—waiting for the command from superior levels. The trade unions lost their right for protecting employees’ interests and for participating into the management of the companies. Their role became as an “appendage” to the government, an “assistant” to the manager and a “friend” to the workers (Xu, 2004, pp. 33–34; Li, 2003, pp. 2–5).

The third phase began when the government launched its reform policy in 1978. Since then, the situation of industrial relations in China has been radically changed by the progress of China’s market development and world globalization (Friedman and Lee, 2010; Wang, 2008). In about three decades,

²¹ Xu (2004, pp. 30–32) has classified the period from 1953 to 1957 as belonging to the first phase—“double-win model”. The reason for his division of the history of Chinese industrial relations is the development of private capitalism, which is totally eliminated in China in 1957. In this period the government began to “struggle” against and eliminate capitalism. After this movement, all capitalists lose their ownership of the means of production. The planned economy system is established in China and companies are owned by the ‘state’. I would like to include these four years in the second phase because the economy is not a “double-win model” any more and it can be seen as a transition period to the industrial relations in the SCs.

the role of the previous actors in industrial relations, such as the government, trade unions, enterprises, and urban employees, has been transformed. Along with this, some new actors—private companies, foreign investment companies, a new working class (caused by internal rural labor migration), non-government organizations, etc.—and institutions—such as a series of laws and tripartite consultation—emerged and complicated the regulation of industrial relations. To present a rough outline of the industrial relations situation in China today, I will give an overview of the main actors, then look more closely at Chinese trade unions, and finally examine the co-determination mechanism in SCs and PCs.

Government. Since starting the reform program, the Chinese government has gradually withdrawn from administration of labor relations and directly intervening in disputes between employers and employees. Rigid control over industrial relations by the government has been transformed into a system where the actors themselves negotiate solutions (Wang, 2008). However, the government still plays an important role. Trade unions have a dual identity as both workers' representatives and an official body, and are therefore still closely dependent on the government. In fact, an independent union is seen as a potential threat to social peace and is still not allowed. Employees have no right to strike. The condition of industrial relations is still to a large extent subject to the strategic calculations of the government. Because of the desire to promote economic development and the personal career aspirations of local officials, local governments usually solve conflicts in favor of employers (Friedman and Lee, 2010; Wang, 2008).

Urban laborers. The employment of urban laborers employed by SCs before China's reform has been fundamentally transformed through "commercialization and casual labor relationships", in other words, the socialist social contract has shifted to a legal labor contract (Friedman and Lee, 2010). The "iron rice bowl" is broken and the interests of urban labor have been damaged and their position in the industrial relations system has deteriorated.

Rural laborers. Rural labor migration first began in the late 1980s and provided an enormous low-wage labor source for labor intensive industries. According to a national survey by the All-China Federation of Trade Unions (ACFTU) in 2007, the migrant rural labor force is estimated to be 120 million strong, and accounts for 64.4 percent of all workers in industrial employment and 33 per-

cent of employees in the service sector. This migration is “one of the most important factors affecting the process of negotiation because it brings new comers to the labor market, and the previous urban proletariat in SCs is being replaced in its dominant position in labor fields and is becoming a shrinking group under market reforms” (Wang, 2008). But, for long time the labor standards for rural labors were critically—low wage, with unpaid overtime, wage arrears, unhealthy conditions, etc.

Tripartite consultation. In 2001, tripartite consultation was introduced to Chinese industrial relations, based on the tripartite system of the International Labor Organization (ILO), but with China’s own version. The difference of China’s model to the ILO’s is that the trade unions and the enterprise confederations attending to the consultation conference are dependent on the government. During the consultations, the government usually doesn’t behave neutrally (Qiao, 2011). However, some studies consider the establishment of tripartite consultation in China as the first step towards genuine collective bargaining (Clarke and Lee, 2002; Shen and Benson, 2008).

Legitimation—rule by law. The reform of the SCs damaged the interests of urban employees and of most rural migrant laborers generally. It also caused a good deal of dissatisfaction among employees. Because of the disaffection of trade unions standing up for the interests of employees, the government tried to address grievances through the *rule by law* (Friedman and Lee, 2010). As a result it made a body of labor laws and ‘ruling the country by law’ was written into the constitution in 1999. Since that time the number arbitrated labor disputes nationwide has risen sharply. But this system has also shown some deficiencies. It takes a long time for employees initiating a legal procedure to obtain a finding, especially with number of cases increasing so quickly. Moreover, the government can influence the proceedings (Friedman and Lee, 2010; Széll, 2010).

Worker protests. If trade unions are unable to serve as an effective channel for employees to articulate their demands, or disputes cannot be solved in a reasonable amount of time or fairly, employees will resort to direct action. Despite them being illegal, worker protests in the state-owned sector still take place in China. Rural laborers employ tactics including strikes, road blockages, sit-ins and threats of suicide, or even more radical actions, such as factory occupations, riots and killings of company bosses (Friedman and Lee, 2010).

These worker protests remain highly isolated because of their lack of legitimacy under the law and the gulf between urban labor and rural migrant labor, but they are not without influence. A labor action in one place may lead to copycat actions in other parts of the country (Friedman and Lee, 2010).

Civil society movement. The actors engaging in this form of movement in China are mainly NGOs and workers' organizers during class labor actions (Wang, 2008). Some new NGOs have been sponsored by international NGOs, which provide legal advice and legal training. Some provide workers guidance or training on organizing workplace protests. Their work in China is rather limited because of the constant harassment and surveillance by the state and the need for them to follow the existing legal statutes—'rule by law' (Friedman and Lee, 2010; also cf. Wang, 2008). Workers' organizers usually operate "in a worse situation without explicit assistance from social actors and even have to struggle with criminal charges for their activities. Without a supportive organization, they may soon lose their networking influence among laborers once industrial actions are over" (Wang, 2008).

Additionally, there are also some informal workers organizations which are also channels for workers to articulate their demands and protect their interests informally, such as "*associations of fellow provincials or towns*" whose members originate from the same place. They are usually led by local employers who as investors have a close relationship with local governments, so that they could sometimes protect the interests of workers more effectively (Wang, 2008; Liu, 2010).

7.1.1 Trade unions in China

In the classic definition, trade unions are an organization established voluntarily by employees to maintain and improve their working conditions (for instance, Webb/Webb, 1920, p. 1; Keller, 2008, p. 37). A trade union should play the role of "protector" for the interests of employees in industrial relations. In China, trade unions are organized as a "subsidiary" to government, and play a role as "conveyor belt" in the planned economy era (Li, 2004, p. 23). An important task they have is to transmit information between the government and workers. A significant object of economic reform is SCs. It involves the different issues in SCs, such as the autonomy of management, the systems of employment, wages, social security, and welfare benefits. With these reforms, the interests of workers in SCs were damaged to differing degrees. In the PCs,

rebuilding of industrial relations faced at a series of difficulties, such as few labor contracts in written form, low regulation of working hours, lack of collective bargaining, critical safety and hygiene deficiencies in the workplace, and a low proportion of social insurance. In such cases, the trade unions have also tried to change their roles to support the workers' given interests better. In the reform and development of the trade unions, we need to keep in mind that they operate in the political arena. The shifting policies of the trade unions usually emanate from the government.

Before coming to the role of trade unions in industrial relations, I would like to paint a picture of the organizational structure and membership of Chinese trade unions.

The trade union as a governmental organ

In the centralized Chinese political system, Chinese trade unions depend closely on leadership from the Chinese government and are built based on the principle of "democratic centralism". In this organizational principle, the individual must obey the decisions of organizations, the minority of members must accept the decisions of the majority, and subordinate organizations must obey the commands of their superior organizations. The structure of trade unions is hierarchical, the same as the political administrative structure.

1) The congress of trade unions and industrial trade unions

Trade unions in China are subordinate to ACFTU. The subordinate levels of the ACFTU are ranged with the local federations of trade unions, trade oriented industrial trade unions and basic trade unions. The local federations of trade unions are only allowed to be established in provinces, regions, counties and towns. The supreme power belongs to the national congress of Chinese trade unions, which is held every five years.

2) Basic trade unions in government and social institutions

Basic trade unions exist in enterprises, governments, and social institutions, such as hospitals and schools. According to the ideology of the Chinese Communist Party (CCP), it regards itself as the 'vanguard' of the Chinese working class. This means that members of CCP should automatically belong to the working class. Moreover, until recently, according to the definition of CCP, the working class should include not only the employees of enterprises,

but also government officials, teachers, etc. Therefore, government workers and employees of social institutions should automatically belong to trade unions.

3) The committee of financial audit and the committee of women workers

The committee members of financial audit are elected by the congress of local trade unions. They are in charge of auditing the revenue and expenditure of their local trade unions and the subordinate trade unions. The local trade unions are also requested to organize the committees of women workers to articulate their opinion and safeguard their interests. Their members are decided on by their own committee of trade unions. Besides, in order to safeguard the legal rights and interests of the members, trade unions are also responsible for setting up their own apparatuses of legal consulting.

Membership of trade unions

As of 2009, there were over 1.8 million basic trade unions in China with 226.3 million members, of them 82.5 million female. At the same time, the number of employees in China was 245.3 million, of them 86.5 million female. In the SCs, there are also some employees who take over special duties and work full-time in the committees of trade unions and are paid by their enterprises, governments or social institutions. The number of these members was 746,000 in 2009²². The presidents of basic trade unions are directly appointed by the government and rewarded with an administrative rank of vice leader of their work units and receive government work. Also their interests are protected directly by the government or superior trade unions.

In the PCs, the members of committees of trade unions are all employees. They receive no extra pay for the management of trade unions. For the membership of the trade unions, normally employees can take part in the trade unions for free, but in some PCs, it is controlled by the employers. They only allow those employees whose performance is good to join into the trade unions as a 'reward'²³. The presidents of unions are mainly middle managers in the companies. Because there are no effective regulations to protect against

²² National Bureau of Statistical China: 2010 China Statistical Yearbook.

²³ In the study of Xu (2004, pp. 203), some employers said, "I have let ... employees become members of trade unions".

unfair dismissal of them at present, their interests depend absolutely on good relations with employers²⁴.

Trade union in SCs

After economic reform was introduced, the interests of workers were damaged. As a result there were conflicts between workers and the government, finally leading to social instability. To maintain social stability, a body of temporary policies was implemented by the government to amend the social and political responsibilities of the SCs, such as a limitation on dismissal, lifelong labor contracts, enforcement of policies to safeguard the CCP in management (Li, 2003, pp. 80–95). These policies compensated for workers losing influence to some degree as a result of reforms. In such a situation, demands for reform of trade unions were also met to protect workers' interests (Li, 2003, p. 182).

According to Li's (2004, pp. 182–190) review of the history of China's reform since 1978, two factors are worth looking at.

One is that the main goal of reform was the rebuilding of the trade unions to protect the interests of workers. After the elimination of private enterprise, the trade unions lost the right of protecting the interests of workers, which was taken over by the government, defined as the "representative" of the workers. After economic reform, the government undertook steps to give authority back to the trade unions. The expression "protecting the legal interests of the workers" first appeared officially in 1984 as a criterion for trade unions. In 1988, the ACFTU congress listed "protecting the legal interests of the workers" as the first task of the trade unions. This policy was fixed in the "Chinese Trade Unions Law" which was passed in 1992. In 2001, this law was amended and "protecting the legal interests of the workers" became the basic duty of trade unions.

The other factor is that reform must be advanced at the same time in the political arena. Under the reforms, the trade unions haven't been separated from the political system and become politically independent organizations. A precondition of the reforms is that the trade unions stay under government control.

²⁴ According to the Chinese Trade Unions Law (article 32), "the presidents and vice-presidents are not allowed to be dismissed in the term of their office". But this regulation cannot protect their unfair dismissal after their office term ends. This is a difficult problem for officials tasked with protecting the interests of employees.

After the reform effort, in fact, trade unions have become slightly better at “protecting the legal interests of workers”, but the majority of workers continue to think that trade unions cannot play the role of “protector” well when their legal rights have been violated (Li, 2003, p. 193; Nichols and Zhao, 2010; Ding, Goodall and Warner, 2002; Friedman and Lee, 2010; Wang, 2008).

Conflict faced by trade unions in safeguarding the interests of employees

After the implementation of reforms the trade unions in SCs were not able to completely safeguard employees’ interests. The reasons for this can be described by the following four factors.

The first factor is that trade unions are confronted by a dilemma in protecting employee interests. In the interplay between the government and employees, trade unions play an “assisting” role in helping the state implement its policies. When those policies would negatively affect employees’ interests, such as reforms of the employment system, trade unions must focus on their first task of “keeping stability”, as requested by the government. To achieve this goal, trade unions give priority to safeguarding the interests of the state²⁵. In the relationship between managers and employees, trade unions are always subordinate to the managers and have no right to make final decisions. The managers are the actual representatives of the state in the company hierarchy. These facts make it very difficult for trade unions to fight for the employees when the employees’ interests are damaged by management (Chen, 2003; Li, 2003, p. 195).

The second factor at play is that trade unions are not the only safeguard of employees’ interests under communist ideology. Theoretically, in addition to the trade unions there are many other organizations in China which have the responsibility of representing employees’ interests, such as the CCP, managers of SCs and the government. For example, the Charter of the CCP states that one important duty of the CCP is to safeguard the legal rights and interests of the public—which naturally includes SC employees. Actually, these

²⁵ When conflicts between workers and the state emerge, trade unions should stand on the side of the government (Chen, 2003). When workers engage in collective protests against the state, trade unions should try their best to convince the workers to stop their actions and defuse the situation. Meanwhile, they should discuss with the government ways of satisfying the workers’ reasonable demands. For example, when the workers organize an activity on the street, the leaders of trade unions should come to the location earlier than government representatives or managers to persuade them to cease their action. If the workers will not desist, the leaders of trade unions often play a role as mediator and transmit the demands of the workers to the government or vice versa (Chen, 2003).

other guardians of employees' interests have more political power than trade unions (Li, 2003, p. 199).

The third factor to consider is that trade unions must shoulder a variety of other demands as well as protecting workers' rights. In the law the duty of "safeguarding workers' rights" is not the only one assigned to trade unions. Their other responsibilities include "developing", "participating" and "training". Though the right of "safeguarding workers' rights" is the first mentioned of the four responsibilities, the other three have the same meaning as the first one. Trade unions prefer to pay attention to the other three responsibilities, as these do not cause conflict with management (Li, 2003, pp. 199–201).

The fourth factor which plays a role is that trade unions do not have practical mechanism at their disposal to safeguard workers' rights. The law gave them the authority to protect employees as their representative but did not provide them with the necessary tools. The trade unions were not allowed to organize the employees to strike, and could only protect employees' interests by directly communicating with managers or indirectly with the government (Li, 2003, pp. 201–202).

Trade unions in PCs

According to the laws trade unions can be established by employees on their own initiative. But actually, as in SCs, the government often promotes the establishment of trade unions in PCs. Generally, the development of trade unions in PCs is currently in an initial phase. On the positive side, trade unions in a few PCs, mostly middle- and large scale firms, receive good financial support and function well. They enjoy higher profits and their employers have a better understanding of what democratic participation means (Xu, 2004, p. 199). These trade unions normally perform the following functions:

- Safeguarding the working rights and interests of employees, such as vetoing the extension of working hours, and ensuring the right to oversee dismissal procedure directed against employees.
- Training employees to improve their skills.
- Arranging various activities to enrich the spare time of employees and help the employers with building a company culture, such as sports teams, parties, or a company newspaper.

On the negative side, the development of trade unions in PCs faces the following problems:

- The establishment of trade unions often depends on the support of employers. Officially employees are free to establish their own trade unions, but in fact they cannot do so until the employer gives his agreement. Employers often oppose to establishing trade unions in their companies. One reason for this is that they are worried about extra expenses caused by trade unions. Another reason is that they are afraid that the trade unions will cause conflict (Xu, 2004, pp. 200–203). When the employer opposes to the establishment of a trade union, the support of the local government can't change the outcome. But with the government's support, the local trade union can handle the employer easier (Liu, 2010).
- Most employees do not have motivation to establish trade unions. Some employees in PCs who have worked in SCs in the past think that trade unions are not essential for them. For temporary employees the problem is that they know almost nothing about how a trade union functions. Additionally, even though there are some employees who are willing to establish a trade union, they do not dare to talk to the employer about their ideas because they are afraid of losing their job (Xu, 2004, pp. 200–203).
- It is very difficult for trade unions to exercise the right of safeguarding the employees' interests. One reason is that most presidents and committee members of trade unions are appointed by employers and therefore their loyal followers. Even if there are trade union representatives who might have an inclination to think independently of employers, the threat of being dismissed makes them think twice (Xu, 2004, pp. 200–203).

However, it might be a good idea not to over-generalize the weaknesses of Chinese trade unions in SCs and PCs. There are a few trade unions which are able to offer substantive support to workers whose rights have been violated (Ding, Goodall, Warner, 2002). Moreover, a study by Liu (2010) shows that there is a pattern of organizing by unions which gives them more potential to break their dependence on employers and have more bargaining power—namely, those union associations by trade which engage in regional, industry-

based negotiations of wages and other employment conditions. They usually have motivated leaders bargaining effectively for employees with similar working conditions across enterprises, and strong support from local government. Furthermore, some studies reveal that in general trade unions are trying to gain more independence from the government and secure more bargaining power (Clarke and Lee, 2003; Wu, 2010).

7.1.2 Co-determination policy

Generally, co-determination mechanisms for employees' democratic participation are more developed in Chinese SCs than in PCs. The main institution of co-determination in SCs is the workers' congress. Additionally, employees' delegates on the board of directors will be discussed briefly. It is also a way of gaining democratic participation. In PCs, the co-determination policy is in the initial stages. Because of the lack of statistics and minimal research, the workers' congress in PCs will not be discussed here in great detail.

Co-determination in SCs

Workers' congresses

The workers' congress system was established in 1957 by the government to restrict the authority of managers. From 1953 to 1957 more and more SCs were established. The managers were given a lot of authority and were in charge of administrative matters and production management (ACFTU, 1986, p. 199). According to the ideology of the CCP, this system overvalued the private authoritativeness of managers and weakened the workers' right of democratic participation. Therefore, in 1957, the government established the workers' congress system as a means to balance the power of the managers. This system was completely destroyed during the ten-year culture revolution between 1966 and 1976. After economic reforms began in 1978, the autonomy of managers of SCs was re-enforced. In 1981, the government again reversed direction when it instructed SCs to re-establish the worker congresses to restrict and supervise the managers' activities (Li, 2003, p. 224).

The organizational structure of the workers' congress and its rights

The workers' congress is comprised of delegates elected directly by the employees themselves. The congress is held every year and organized by trade unions and also subsequently in charge of making sure managers implement

its resolutions. Normally the structure of the workers' congress is composed of three levels—enterprise-level, workshop-level, and working group-level.

The following five rights of workers' congresses are contained in the Chinese Company Law, enacted in 1995:

- Discussing the development plan and business plan of companies, except those matters dealing with business secrets.
- Approving the draft of collective contracts; making propositions for reform plans which are concerned with the immediate or vital interests of employees.
- Making decisions on the welfare fund established by the company.
- Evaluating and supervising the directors and managers of a company, and giving the government proposals for rewards or sanctions.
- Electing employees' delegates to the board of directors and the supervisory board.

Conflicts of workers' congresses

After developing for over 40 years, the workers' congresses have become the most common and essential co-determination model in China. In 1988, almost all SCs had established one. But, along with the promotion of economic reforms, this democratic institution confronts difficulties.

- *Reduction in the establishment rate.* Since 1989, the reforms of SCs have been given priority over privatization policy. Most managers of privatized companies do not want to accept workers' congresses. They think that workers' congresses will cause more conflicts and damage their own authority in the company. They see workers' congresses as a redundancy, which will damage the management and production efficiency of companies. It is not obligatory for PCs to establish workers' congresses under the law (Liu, 2004, p. 220). During this period, both the number of workers' congresses and the percentage of congresses established decreased. In 1990, the number of workers' congresses was 373,933 and the establishing ratio was 61.7 percent. In 1997, those numbers decreased to 286,263 and 56.1 percent respectively (Zhongguo gong hui tongji nianjian, 1998, p. 184).

- *Formalism of workers' congresses.* In fact, the way the congresses are constructed makes it very difficult for many workers' congresses to exercise their five legal rights completely. Because some employee delegates to the workers' congresses are managers, many workers' congresses lose their efficiency and become formalistic (Liu, 2004, pp. 223–224; pp. 239–242).
- *The crucial influence of managers.* In the reform effort, managers received significant autonomy from the government and broke away from its restrictions. Their power in the companies was strengthened at the same time and they no longer had to implement government instructions about workers' congresses (Li, 2003, p. 228). They have the administrative authority to influence the workers' congresses and the non-management employees are usually in a weaker position. So whether the workers' congress functions well in a company, depends always on the extent of the managers' commitment to democratic processes (Liu, 2004, p. 242).

Employees' delegates on the board of directors and supervisors as compensation for a weakening of the workers' congress

This mechanism is taken from developed countries where labor relations have achieved a relative maturity. At the moment it exists only in state holding companies. After a modern corporate structure was established in 1995, the legal rights of the workers' congress in newly established state holding companies were weakened. To compensate for this, the government instructed state holding companies to establish a mechanism to have employee representatives on the board of directors through lawmaking.

In *the Chinese Company Law* enacted in 1995, state holding companies must establish a board of directors, and it must contain employees' delegates in its membership (Article 45). Large-scale companies must establish a board of supervisors, with mandatory employees delegates (Article 52). The worker delegates are directly elected by the workers' congress. They do not have to be approved by the shareholders and are directly appointed into the administrative organs of companies to articulate the propositions and requests of employees.

After establishing this mechanism for employees' participation in the management of companies, it achieved some positive effects, such as solving problems about the wage levels and fringe benefits of employees. But it has also had a few problems:

- In performing their duties on the board of directors and supervisors, employees' delegates are restrained by their relationship with company managers. Most employees, including their delegates, are employed by the managers. Moreover, in the administrative set-up of state holding companies the employees' delegates are always subordinated to the managers. In such relationship, the employees' delegates on the board of directors find it quite difficult to boldly and effectively exercise their rights of supervising and co-determination (Li, 2003, p. 231).
- The vague definition of "employee" caused an uneven composition of the employee delegates. In SCs, the word "employee" includes all personnel—management and non-management employees alike. Certainly, after the economic reforms were implemented, general managers are differentiated from the other employees by incomes, duties and responsibilities in companies. But it has still not been defined clearly if the other managers, such as assistant managers or middle managers should be counted as "employees" (Li, 2004, p. 232; Liu, 2004, pp. 195–203). Therefore, in many state holding companies assistant managers and middle managers can reasonably be chosen as employee delegates.
- The qualification of procedure for choosing employee delegates should be improved. Generally, the qualification of the employee delegates is lower than directors or supervisors of companies (Li, 2004, p. 233). Some employee delegates on the board of supervisors, for example, do not understand financial statements, so it is difficult for them to supervise the managers' conduct (Yu, 2003).

Co-determination in PCs

The government gives no guidance about the participation of employees in the management of PCs, and only requests it in principle. In *the Trade Unions Law* as amended in 2001, it is stated that PCs should choose a suitable form of democratic participation for employees. For a long time during the devel-

opment of PCs, employers refused to establish a workers' congress. But now, more and more employers in Chinese PCs are establishing workers' congresses. The reasons for it are the following (Liu, 2004, pp. 257–258):

- By establishing the workers' congress, most tasks are fulfilled by the employees themselves. Trade unions are in charge of organizing its actions. The employers do not have to pay for its expenses.
- This model is beneficial to motivate the employees and improve the quality of decision-making.
- Some employers see the workers' congress as a way to improve the 'image' of company.

There are not many studies examining the actual performance of workers' congresses in PCs. Generally, the development of workers' congress in PCs is, for the moment, still in an initial phase and the participation in management decision-making is almost out of the question for employees (Wang, 2008).

7.2 Industrial relations in Germany

The German system of industrial relations is a centrally coordinated one, and is deemed as a typical model of labor politics in western countries and is also held up as a good example of socially coordinated capitalism. It was regarded as a "model case for upmarket restructuring and consensual, long term high trust relationships between capital and labour. The tightly integrated institutional infrastructure, characterized by a high degree of regulations and encompassing institutions imposed a uniform set of institutional constraints on companies" (Tüselmann and Heise, 2000). Based on the research of some scholars, Tüselmann and Heise (2000) delineated the following salient features of the German system of industrial relations:

- Extensive and detailed regulations, producing a strongly codified system;
- The predominance of industrial unionism;
- Substantial coordination capacities of the peak organizations of capital and labor;
- A dual structure of interest representation with collective bargaining (mainly carried out at regional sectoral level in the private sector) be-

tween trade unions and employers' associations being formally, and legally separated from employee participation via works councils at establishment—company level;

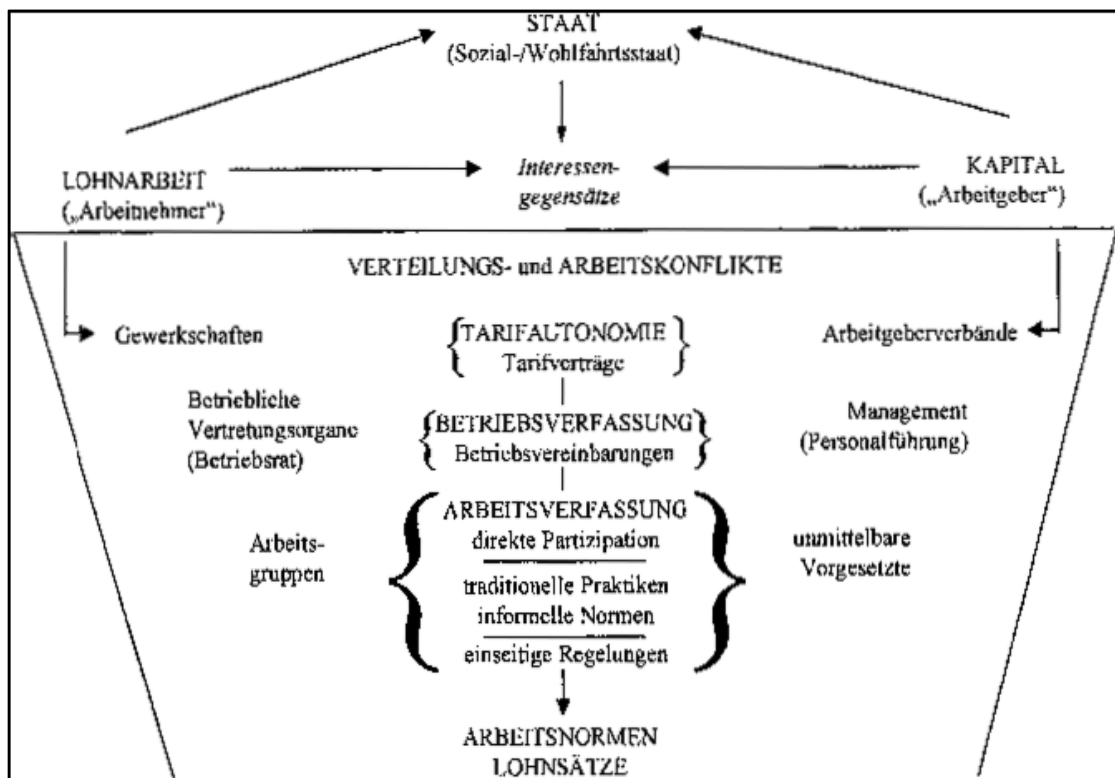
- A complex and comprehensive system of legally enshrined employee participation rights;
- A system's internal flexible adaptation to accommodate change.

With the diagram of Müller-Jentsch (F.13) we have an overview of the German system of industrial relations. In the “triangles” structure, the German social welfare state takes on the role of “arena keeper”. Its main tasks are comprised of lawmaking and amendments. Through drafting comprehensive institutional regulations, the state builds the arena and maintains “the rules of the game” for both sides, ensuring that they conduct bargaining in a democratic way to achieve a consensual outcome for conflicts over divergent interests. In the lower part of the diagram, it shows three levels of interest treatment for employers and employees. On the inter-company level there are the two interest representative organizations—trade unions and employer federations, who are responsible for collective agreements. The works councils allow workers to codetermine decisions with management at the plant level. These two subsystems make up the typical “dual system” of German industrial relations. In addition to collective agreements and codetermination, for individual labor contracts the work regulations regularize traditional practices and informal norms for work groups, as well as unilateral decision-making by senior employees and forms of direct participation. Through these procedures, the work norms and wage rates in the company are determined. In the following section I will describe the “dual system” in greater detail.

7.2.1 Collective agreements

The two parties in interest negotiations in Germany are trade unions and employer federations. Both sides are well organized. They respectively represent the interest of employees and employers to conduct collective bargaining and in the end achieve collective agreements. This form takes place dominantly at the industrial sector level and regional level—at the level of the federal states. In collective bargaining both parties have full autonomy. The influence of a third party such as a state, the national government or a lawmaker is not allowed. They must remain neutral.

Figure 13: Industrial Relations as an organizational and institutional system between Capital and Labour



Source: Müller-Jentsch (2007, p. 28).

A collective agreement has two parts (Keller, 2008, p. 176): an obligatory part, which regulates the rights and obligations existing between the parties to a collective agreement, such as duty of execution and arbitration agreements and so on; and a normative part, which contains normative provisions, for example hours of work, wage, entitlements of holiday, working conditions, term of work contracts, cancellation and dismissal etc. The collective agreements can be divided into the following categories²⁶:

- An association-level agreement whose contracting parties are an employers' association and a trade union. The contract applies to a whole sector or region. Companies providing temporary workers are in temporary work sector.
- A framework agreement which regulates general working conditions, but not remuneration.

²⁶ <http://www.working-in-germany.com/collective-labour-agreements-0210.html> (accessed at Aug 3, 2010).

- A sector agreement which applies to sectors in a regulated region, e.g. employees in local public transport. Such contracts are made in the style of collective agreements for public service, but are different in parts.
- A wage and salary collective agreement which regulates remuneration / remuneration rating.
- A special, or complementary collective agreement which regulates issues like apprenticeship, semi-retirement, further education, and can take into account company-internal circumstances.
- A company agreement, whose contracting parties are the employer in a company (e.g. Volkswagen) and a union of employees. It is a single-employer company level bargaining pact, which is less important in Germany.

In 2008, there were more than 64,000 collective agreements in Germany. From 1998 to 2007, the percentage of firms covered by this type of bargaining dropped by 13 percent in western Germany (from 76 to 63 percent) and by 9 percent in eastern Germany (from 63 to 54 percent). In 2007, about 56 percent of all employees in western Germany and 41 percent of employees in eastern Germany were covered by sectoral collective agreements. Company-level agreements covered 7 percent of employees in western Germany and 13 percent of employees in eastern Germany (Kraemer).

As the interest representative of employees, German trade unions are tightly organized. Three trade union federations are present in Germany—the Confederation of German Trade Unions (Deutscher Gewerkschaftsbund, DGB), the German Civil Service Association (Deutscher Beamtenbund und Tarifunion, DBB) and the Christian Confederation of Trade Unions (Christlicher Gewerkschaftsbund Deutschlands, CGB).

The DGB unites the trade unions in industrial and service sectors, and is the largest federation, with more than 85 percent of all trade union members. Its members amounted to about 6.4 million in 2008, 32 percent of whom were women.

There are eight trade unions affiliated with the DGB. The largest trade union is the German Metalworkers' Union (Industriegewerkschaft Metall, IG Metall) who has 2.3 million members, 17.7 percent of whom are women. Close to it in

size is the United Services Union (Vereinte Dienstleistungsgewerkschaft, ver.di), which has the second largest number of members at 2.2 million, 50 percent of them female (Kraemer). Previously there were 18 trade unions affiliated with the DGB. Since 1989, a string of mergers took place. The last merger was in 2001, when the ver.di was formed by five single organizations of the public and private services sectors (Keller, 2008, p. 41). The most important reason for this was a “defensive response to the changing socio-economic environment: obviously falling memberships and organization level since early 1990s, significant structural shift of economy away from tayloristical-fordistical production system, and there with the change of structuring principles of labour markets and the attempt, answer to demand of employers on flexibility, deregulation measures by state side and progressive decentralization tendency of collective bargaining system under the auspices of internationalization which meaning Europeanization and globalization” (Keller, 2008, p. 40).

In general, the membership of the DGB has declined since 1992, both in percentage wise and in terms of numbers (Keller, 2008; Kraemer). Until 1992 it saw a stable development. Shortly after German reunification in 1989 membership jumped from 7.3 million to 11.8 million. After that, its membership total shrunk continuously. In percentage terms it declined from 25 percent in 2000 to 22 percent in 2005, and had 6.8 million members in 2005.

The second largest trade union confederation—DBB—had about 1.2 million members in 2008 and was comprised of 40 affiliated associations in the public and private service sectors. The majority of them were government officials (Kraemer). The list of issues it is interested in doesn't refer to collective bargaining or the right to strike, but to influencing on parliament and public opinion (Keller, 2008, p. 42).

The CGB is a union which is committed to ideological or political issues. It has 16 affiliated trade unions and 278,412 members in 2008 (Kraemer). The CGB is both collective-politically and socio-politically insignificant (Keller, 2008, p. 43).

7.2.2 Co-determination at the plant level

At the plant level, the work councils are the most important institution representing employees' interests (Tüselmann and Heise, 2000), and a fundamental institution which distinguishes the German model of industrial relations

from that of other countries. It is provided by the Works Constitution Act as a regulatory system which enables the workforce as a whole and the individual employees to articulate their legitimate interests. This institution in the company represents employees' interests regardless of membership in a union. The employees are allowed to establish a work council in a company which has at least five employees. The members of work councils are elected by all employees of a company, except managerial staff, every four years.

The findings of the Institute for Labour Market and Occupational Research Germany (Institut für Arbeitsmarkt- und Berufsforschung, IAB) for 2005 suggests that a works council is set up in only 11 percentage of all PCs. Work councils cover 47 percent of western German and 39 percent of eastern German employees. Almost in all large scale companies a work council has been established (Kraemer).

The work councils are responsible of negotiating for employees with management about operational issues in a company, such as²⁷:

- Design of workplace environment and working processes;
- Personnel matters as cancellation, hiring, restructuring and transfers;
- Economic issues, i.e. creating a social program;
- Controlling the compliance with law, regulations, collective agreements, company agreements, accident prevention, environment protection etc;
- Support and advancement of senior employees, disabled employees and foreign employees,
- Equal treatment of men and women,
- Co-determination on issues that are not regulated by law or collective agreements. Examples are regulations on working hours, remuneration, vacation, introducing surveillance devices for controlling the employees, suggestion boxes, etc.

Officially the work council works independently of trade unions but in fact they work interdependently. Furthermore, it is not illegal to join collective bargaining and call for strike at the same time. However, it influences the wage rate in individual companies. Compared to the wage level which is regulated in the

²⁷ <http://www.working-in-germany.com/works-council-0142.html> (accessed at Aug.17, 2010).

collective agreement, the actual wages are usually higher in much of the private sector (Tüselmann and Heise, 2000).

To clarify the orientation models between management and works councils in Germany, Trinczek (2004) has identified five typological relevant dimensions of managerial orientations toward works councils based on extensive case studies:

- Perception of interests conditions in company;
- The “leading picture” of managerial behavior in intra-company social order;
- The relation to the employees;
- The basic position to intra-corporate co-determination;
- The everyday internal picture of the company.

According to these dimensions, he has developed six orientation models depicting how the managerial orientations towards the existing work councils in the companies. In Table 9, the various models show the German management conducts its co-determination policy.

Currently there is a debate about the trend of the German “dual system” of industrial relations. The collective agreement in the German industrial relations system has shown signs of eroding (see for instance, Artus, 2001; Haipeter, 2009). The number of work councils stays relatively stable, but the number of employees who work in companies with a works council may be falling. The question of the effectiveness of works council in presenting employees’ interests has been raised. Some scholars have also investigated human resource management in companies without works councils (for instance, Böhm and Lücking, 2006).

Table 9: Six collective orientation model of Rainer Trinczek (2004)

	Interests perception	'Leading picture'	Relation to employees	Basic position	Daily praxis
Co-determination hostile model	Unilateral perception	(owner-) entrepreneur without restriction by decision making	Material contact with populist 'face'	Principal refusal	Exceedingly restrictive praxis to deactivate and marginalize the work council
Patriarchal model	Harmonized perception	"Company family" with "pater familias" taking all responsibilities	Tight and immediate relation	Basic refusal	Either rigidly segregated or completely integrated into "company family"
Modernistic model	Polarizing interests conditions and holding as outdated	Company as "performance fellowship"	Wish a tight relation for productively utilizing employee	Tolerance toward co-determination as "outdated model" anyway	Neutral to cooperative praxis
Pragmatic and power referred model	'pluralistic' interpretation	Interests oriented 'fellowship' with same target	Relation imprinted by strategic criterion	Tolerance toward co-determination as "bearing" unchangeable facts	As 'ideal' imagined praxis
Partnership and cooperative model	Recognition of existence of divergent interests	Material enlightened cooperation and partnership	Neutral relation with strong marginalization tendency concerning role of employees in political process	Affirmative relations	Announced open, realistic and compromise oriented direction
Intermediate-consensual model	Perception of complex net of collectively and conflicting interests	'fair' company	Pursuing a close relationship but avoiding competition by representing the interests of employees	Almost unrestrictedly affirmative relation	Very tight and trust full praxis

8. Empirical case studies

In the empirical case studies, I have investigated three companies who were all German companies before and ‘taken over’ by the Chinese companies. The German company in the second case study was established by three managers in the Chinese parent company and after a few years was taken over wholly. It may not totally belong to the pattern of merger & acquisition. In order to maintain anonymity, I will use fake names for the companies (s. Table 10).

Table 10: Abbreviations of investigated companies

	Company	Abbreviation
Case Study 1	German Subsidiary	Vogt
	Chinese Parent Company	Tiangong
	Chinese Headquarter of Parent Company	Sifang
Case Study 2	German Subsidiary	Ningman
	Chinese Parent Company	Waiyuan
Case Study 3	German Subsidiary	Hubert
	German Subsidiary in China	Hubert China
	Chinese Parent Company	Tianlong
	Chinese Headquarter of Parent Company	Xinhua

Of the three companies, I interviewed eight persons for nine times (s. Table 11). Two persons of the first case study have been interviewed twice. In the third company I have interviewed two persons of the work council together. In the following sections, the results of the empirical studies will be depicted according the research points of this paper. In the beginning of every case study, I will also present briefly basic information about the companies. Additionally, I will not use the real names of the interviewees, but only with the abbreviations aligned in the table, in order to maintain their anonymity.

Table 11: Overlook of interviewees

	Title	Position	Abbreviation	
Case study 1	German manager	CEO of German subsidiary	CS1-GM1	Interview (2x)
	German middle manager	Manager of personal department	CS1-GM2	Interview
	Chinese manager	As Coordinator appointed to German subsidiary	CS1-CM1	Interview
	Chinese manager	CEO of Chinese parent company	CS1-CM2	Information from internet
	Chinese manager	Vice president of Chinese parent company	CS1-CM3	Information from internet
	German leader of work council		CS1-WC1	Interview (2x)
Case study 2	German manager	Manager of German subsidiary	CS2-GM1	Interview
	Chinese manager	CEO of Chinese parent company	CS2-CM1	Information from internet
Case study 3	German manager	CEO of German subsidiary	CS3-GM1	Interview
	German leader of work council		CS3-WC1	Interview*
	German deputy head of work council		CS3-WC2	Interview*
* These two persons have been interviewed together.				

8.1 Case Study 1—Vogt Machine Tool Company

Essential points:

- Middle scale of the German subsidiary.
- Top quality of the German subsidiary worldwide.
- Wholly taken over by the Chinese company.
- The Chinese parent company is state-owned.
- Long business relation between two companies over 20 years.
- Successful merger & acquisition case.

8.1.1 Description of company

Histories of German and Chinese companies

Vogt is a company with a slogan “A Company with Tradition” which produces tool machines. It was established by the family *Vogt* in 1920 in *Baden* and concentrated on the businesses of machine repair and production of refining machines for glass and stone. 1926, it moved to its current location. Since then it began to produce tool machines, especially long plane machines. After the death of the owner in 1950 the company was inherited and managed by his son and his son-in-law. Its production range has extended to combined plane, milling, looping and long milling machines. 1986, the company was sold to the American company—*Whitestone international*. Because of bankruptcy, *Whitestone* sold *Vogt* through auction to another Machine Factory *Hammer* in 2003. After two years the Chinese Company *Tiangong Machine Tool* bought *Vogt* from *Hammer*, since *Hammer* wanted to concentrate on its special product spectrum—grinding machines. The business grinding machine of *Vogt* is maintained by *Hammer*.

The parent company of *Vogt* is *Tiangong Machine Tool Plant*, who is a producer of mechanical equipment, including various kinds of milling, drilling and boring machines and has also a company with long tradition in China. Its predecessor is *Xinhan Business Firm*, which was established by an American Presbyterian in 1921. In 1926 it was renamed *Xinhan Iron Factory*. From 1949 to 2002, this company was renamed several times and in July 1953 was divided into the *Tiangong* Company and another one. In 2002 *Tiangong* took over another machine tool company in the same city according to the integrated planning requirement of the city in the in-depth SC reform. Since 2002,

Tiangong has built a few joint-venture companies in China with Japanese companies. In November 2005, *Tiangong* took over the German company *Vogt*. It is the first daughter company of *Tiangong* overseas.

The parent company of *Tiangong* is *Sifang Mechanical & Electrical Holding co., Ltd. (Sifang)*, a SC which was founded on October 1, 1949, when the People's Republic of China (PRC) was established. At that time, *Sifang* was an Industry Bureau of a city in North China. In 1997, it was turned into a state asset management company.

Economic Situation

Before its take-over in 2005, *Tiangong* was in a start-up stage. Before 2002, it was not in an optimistic state and could only survive with about 6,000 employees. In 2002, it received 2.2 Billion RMB²⁸ through selling the ground of its old factory. With this money, it began to expand its business and established joint-venture companies with a few Japanese companies and cooperated with a French company for developing production technology. At this phase *Tiangong* had a quick development. It now has 16 subsidiaries and 1,600 employees. In 2007 its turnover amounted to 2.2 billion RMB, 6.63 times as much as in 2002, and it enjoyed profits of 205 million RMB, 30 times as much as in 2002.

Vogt had 497 employees and a turnover 60 million Euros before its take-over. After three years, this merger & acquisition case can be considered a success. The annual turnover of *Vogt* increased from 60 million Euro in 2005 to 84 million Euro in 2007. Its personnel grew from 497 in 2005 to 670 in July 2008. Both sides are satisfied with outcome.

“We are very, very satisfied with our current situation. We are the most successful acquisition in Germany” (CS1-GM1).

“We are the most successful example of a case for research” (CS1-CM1).

According the answers from CS1-GM1 and CS1-GM2, the good performance after the acquisition is due not directly to the ownership change, but related to the control strategy of the parent company over *Vogt* and the economic upturn.

²⁸ The exchange rate between RMB (the Chinese currency) and the Euro is about 8 RMB to 1 Euro.

“At one side, people have believed in our strategic arrangement with *Tiangong*. At the other side, of course the economic upturn” (CS1-GM1).

8.1.2 Internationalization strategy

Internationalization history of the parent company

The process of the internationalization of *Tiangong* can be illustrated by three things. Its first one is the contact with foreign companies to build business partnerships, such as with *Vogt* since 1984.

“The meaning of internationalization is not only about such things that a company goes out to another country and builds a plant there, but also includes those activities, as well as making trade with foreign companies, building joint-venture companies with foreign companies in China, and so on. We have long experience with internationalization. It already began more than twenty years ago. We have trading relationships with many foreign companies. For example, since 1984 we have been building a business partnership with *Vogt*. This could also be considered as the initial stage of our internationalization” (CS1-CM1).

The second factor is the internationalization experiences of *Tiangong* through joint-venture or cooperation projects with foreign companies, mainly from 2002 to 2005. In this phase, *Tiangong* built a few joint-venture companies with foreign companies in China.

“Though their places are all in China, it could be also considered as stage of internationalization of *Tiangong*” (CS1-CM1).

In 2000, *Tiangong* innovated in production technology by changing location. At the same time, it began to look for the technology support from outside. In December 2003, *Tiangong* established a machine tool joint venture with a Japanese company with which *Tiangong* has had a business partnership since 1993 and a production coordination since 1998. Through this project *Tiangong* obtained high technology from the Japanese company for producing batch vertical, horizontal machining centers and a CNC lathe machine. In July 2005 *Tiangong* established another joint venture company with other two Japanese companies. This company applies technology from Japanese companies and specializes in the functional units of CNC machines, cutting tools and shanks for *Tiangong*. Furthermore, in June 2004, *Tiangong* also built a com-

pany for precision machine design with several foreign companies to develop special production with its own patent.

“The target of these activities is to absorb the technologies through the coordination with another, and finally become an independently technology developer” (CS1-CM2).

The third aspect of *Tiangong's* internationalization is its turn outward. The milestone in this process was the acquisition of *Vogt* in October 2005. After this *Tiangong* became a worldwide actor in the machine tool branch.

“The acquisition of *Vogt* represents progress in realizing our internationalization strategy” (CS1-CM1).

Motivations behind internationalization

From the point of the German subsidiary, an important reason for the sale is that the parent company of *Vogt*, *Hammer*, wanted to hold its special product spectrum grinding machines. As the special product domain of *Hammer* is the grinding machine, it was not able to manage *Vogt* with impartiality. There were also some managerial reasons at play, such as *Hammer* not being able to reach an agreement with the work council about increasing working hours.

For the Chinese parent company, the motivation for an acquisition can be explained as “improving competition capability”. The internationalization of *Tiangong*, especially the increase of tempo with a range of joint-venture projects since 2002 and the acquisition of *Vogt* can be seen as the result of two factors operating on the company:

- The one is the intensified worldwide competition. Not only the foreign companies but also the local companies in China in the machine tool branch are developing quickly. Therefore, to compete against this *Tiangong* must keep continue improving and gaining knowhow to remain competitive.

“When we want to take part in the worldwide competition, we must go global together with international companies” (CS1-CM1).

- The second reason one is the rising demand from the customer for better technology from customer. There has been an increase in demand for technological improvements in machines in the last few years. Its local customers in China are manufacturers and suppliers for inter-

national companies, who need production equipment with higher technology than before.

Under this main point, the motivations for acquisition could be classified as the following:

- *Seeking technology.* *Vogt's* technology is world class. Through this acquisition, *Tiangong* can without a doubt absorb technology and knowhow from *Vogt* to upgrade its production technology.
- *Seeking brand.* *Vogt* has a long history and is a world-famous brand. With such a well-regarded subsidiary, it will be easier for *Tiangong* to gain access to the international market.
- *Seeking markets.* *Vogt* already has a stable international marketing network. By utilizing this network, *Tiangong* can economize lots of resources in developing its own international market.
- *Seeking managerial knowhow.* Modern management of a German company also has attractions for *Tiangong*.

“*Vogt* is a worldwide-famous company and has an international market network and a very famous brand. The acquisition of *Vogt* is an advantaged access for us into the international market” (CS1-CM1).

Community support

During the acquisition the government and a bank in China offered their support for *Tiangong*. The government simplified the approval procedure²⁹. *Tiangong* received a credit guarantee from a bank.

“A transnational acquisition is not simple. The government has helped us and simplified the approving procedure, in order that we could fulfill the acquisition as soon as possible ... Our economic situation was good. We have gathered all money for acquisition ourselves” (CS1-CM1).

8.1.3 Management models

Generally, the management of German company is more professional, modern and transparent than of Chinese company. And the employees work more

²⁹ In China an investment project of more than 5 million USD must be approved by the Chinese Commerce Ministry.

efficiently and disciplined than Chinese workers. These differences are already noticed by Chinese managers.

“Generally, I have seen that the German workers are mature. When we look at an individual, a Chinese worker is not worse than a German one. But when we consider team work, the effectiveness of the Chinese team is lower than the German one. I think that the main reason for this is the work ethic which has been imprinted by the culture on the whole society” (CS1-CM1).

“It is to be admired that workers have good work ethic and are more motivated at work. Their management thinks puts a lot of trust in them” (CS1-CM3).

“For the mother—*Tiangong*, the child—*Vogt* is apparently too big” (CS1-CM2).

After a long discussion with the German management team, the managers of *Tiangong* came to the idea—“*participating, not leading*” to overcome the managerial differences.

Influences from the parent company

The German team has complete autonomy of daily operations. The parent company has never directly influenced management and *Vogt* is independent of the parent company in this regard. The German management team receives supports from the parent company and the coordination between two companies looks good. This may result from the openness of the German manager and the carefulness and international experience of the Chinese managers. Before takeover, *Tiangong* had lots of experience with international business cooperation. This may help them to understand *Vogt* well.

“Mr. X (CS1-CM1) has been already trained modern management style. He knows the western management model well” (CS1-GM1).

“Mr. X (CS1-CM1) is acquainted with the West. He is characterized by openness. We have a super relationship with him. We communicate in English. We understood each other completely from the beginning ... There are no communication and language barriers at all” (CS1-GM1).

Transfer of managerial knowhow to China

On the other hand, the German management model influences Chinese management style in this case. The modern and professional managerial knowhow of *Vogt* is transferred to *Tiangong* in two ways:

- The one is the coordination between both management teams. By working together, the managers of *Tiangong* experienced the managing style of their German partner first-hand and learned from it. Their decision-making processes became quicker than before the *Vogt* takeover.

“The management of *Vogt* is modern and professional. It has motivated us to improve our management skills” (CS1-CM1).

- The other way management knowhow is transferred is the ‘coordinator’. The task of the Chinese ‘coordinator’ is to observe the management model at *Vogt* and report its useful advantages to *Tiangong*.

“Besides, I observe which advantages of managerial knowhow *Vogt* has, and then transport them to the parent company” (CS1-CM1).

8.1.4 Control structure

The parent company wants to leave *Vogt* alone. “*Vogt stays Vogt*”, this statement was repeated often by the interviewees. This means that the new owner hasn’t planned to change anything in *Vogt* internally. There could be two reasons for this decision:

- One reason is that the parent company considered changes in internal structure as possibly damaging to *Vogt*.

“*Vogt* is like a hundred year old big tree. Only in the ground in Germany can it thrive and stay always green” (CS1-CM1).

- The other reason is that *Vogt* can maintain a stable trade partnership with its customers after the takeover only if it has full autonomy. These customers are mostly only interested in machines produced by *Vogt* itself.

“We have visited all customers, and told them, ‘*Vogt stays Vogt*. You received a machine completely produced by *Vogt*. ... In the end, we have a stable relationship with our customers” (CS1-GM1).

Control strategy

Without intervening in the daily operations of *Vogt*, *Tiangong* took over strategic control of *Vogt*, which can be seen in three areas:

- Approval of the annual business plan at the year end. Through the annual business plan the parent company can control the operations of *Vogt* during the next year, in areas such as investment, personnel recruitment, and so on.
- Approval of important plans for the coming year. When *Vogt* has special projects planned for the upcoming year which have not been included in the annual plan, they must be also approved by *Tiangong* management.
- Oversight by the ‘coordinator’. The one important task of the ‘coordinator’ is to supervise whether *Vogt* is performing effectively according to the business strategy and plans approved by the parent company. He must ensure that *Vogt* operations are on the ‘right’ track.

“I must pay attention to *Vogt* so that it doesn’t diverge from our instructions” (CS1-CM1).

To this point the control mechanisms in place are working well for both sides. Assisting the smooth functioning of this control structure is the management style of *Vogt*. The parent company discovered that the management structure at *Vogt* is pretty transparent. It made it easier for the Chinese managers to obtain the necessary information about the operational situation.

“All things which we have laid on the table are always approved” (CS1-GM1).

“When we want to recruit new colleagues, we have to first come up with a plan, and then submit it to Beijing. Our plans have never been turned down” (CS1-GM2).

“The German company is very transparent. Therefore, I have no difficulty in obtaining the information I need” (CS1-CM1).

Assigning Chinese workers

The parent company sent three Chinese employees to *Vogt* from China to take one of the manager positions, as well as financial assistant and marketing assistant. In addition, they have a female interpreter. The assistants serve the entire management team. The financial assistant is in charge of developing the quarter, half-year and annual financial reports, while the marketing assistant helps the managing team coordinate marketing strategy between *Tiangong* and *Vogt*.

The tasks of the management team member—CS1-CM1—have been mentioned in passing before. Below his role is described in detail. In general, his role is as a ‘coordinator’ between the German subsidiary and the parent company. His tasks are comprised of five duties:

- Transmitting the strategic plans of the parent company to the German subsidiary.

“I must hand down the plans and requirements to German subsidiary” (CS1-CM1).

- Monitoring the achievement of the business plan and reporting back to the parent company.
- Transferring managerial knowhow to the parent company.
- Helping to prepare the annual business plan. He transmits the views of both companies.

“Before we discuss the annual plan with German managers and make a final decision, we have already been exchanging opinions for a few months” (CS1-CM1).

- Overseeing marketing coordination and the Chinese technician training program.

“I also preside over the market coordination of both companies. I am now very busy on it. I must negotiate with the German subsidiary ... The marketing assistant helps the whole management team to frame the plans ... When the Chinese technicians comes, I do a lot of things for them” (CS1-CM1).

Financial transfer

After being acquired, the profits from the German subsidiary were not directly transferred to China, but distributed by the parent company according to the investment plan. The parent company had agreed with *Vogt* that *Vogt* would retain all profits for three years after the acquisition to pay bank credits and reinvest.

“By the end of April 2007, we had absolutely no more bank debt ... We are very, very satisfied with our situation now” (CS1-GM1).

Whether or not the parent company will distribute benefits to its German subsidiary in the future is unclear. According to CS1-CM1, this may not be a significant issue.

“Of course, the practical goal of an acquisition is profit. Whether the money stays in German or in China, it makes no difference, because *Vogt* is already our subsidiary. When the parent company needs money, for example, we want to establish a company somewhere, we collect money from our subsidiaries, including *Vogt*” (CS1-CM1).

8.1.5 Technology cooperation

Training Chinese mechanics on collective service strategy

Vogt has been developing its market in China for a long time and has many customers there. After being acquired, it continues to maintain its own trade office in China. But to optimize the resources utilization, both companies have arranged training projects for Chinese mechanics after sale service. The German subsidiary is responsible for training Chinese technicians sent from the parent company. They take charge of providing service for Chinese customers of *Vogt*.

“*Vogt* has many customers in China. It is not worth for them to send service mechanics to China for one case ... Up to this point we have trained about 20 technicians” (CS1-CM1).

Production cooperation

An important goal of the takeover for *Tiangong* is to obtain the productive technology of *Vogt*, but *Tiangong* faces barriers in making use of the technologic knowledge of *Vogt*. Specifically, the core technology of *Vogt* continues to be held by the company, because the Chinese mechanics at *Tiangong* lack the technical knowledge needed to absorb the knowledge from *Vogt*, according to CS1-GM1 and CS1-WC1.

“There is already lots of background knowledge shared by us. Obviously, there are blueprints for everything. But for every blueprint, there are two or three workers who know the things needed for the blueprint—where there needs to be a trick, where the corner must be taken away, or anything else. These things are not documented in the blueprints ... Then, we are permanently innovative

and have continuously new things which will not be marked in the blueprints” (CS1-WC1).

In such cases, *Tiangong* promotes production cooperation in two effective ways:

- Building machines together. This cooperative model was already developed before the takeover. Production costs are lower in China than in Germany, not only the cost of labor force, but also of the materials. Therefore, the parent company builds the hardware of the machine and the core technology of the machine is provided by *Vogt*. In this way the production costs of the machine from the German subsidiary are reduced.

“There are companies who don’t have enough money ... Then we seek for them a machine for their firm. The machine is built in China. We build the key components, and then we put everything together. Then it is a machine built by the whole firm”. “We don’t market this machine actively, just keep it as an alternative for customers” (CS1-GM1).

- Technology transfer to the parent company. Without a doubt *Vogt* produces the highest level of technological products worldwide. These two companies concentrate on different market segments—*Vogt* on high-end markets and *Tiangong* on middle- and low-end. The logic of the transfer technology from *Vogt* to *Tiangong* is to innovate in the technology field and improve the product quality of *Tiangong* to enlarge its market share of the middle- and low-end, but not to overlap the market segment of *Vogt*. The share of the high-technique market should be secured at first.

“The quality of *Vogt* is the highest. We are in the middle ... with their production technology we can improve ours and our market share will increase” (CS1-CM1).

“*Tiangong* is in the middle market segment. With the help of *Vogt* this part of the market (middle- and low-end market) will increase” (CS1-GM1).

“*Vogt* is already our subsidiary. It makes no sense to say that we compete with it” (CS1-CM1).

Even if the logic behind transferring technology has been talked about many

times in interviews, detailed information about how and to what extent this happens has not been explained.

8.1.6 Industrial relations

Relationship between management and works council before and after the acquisition

Vogt has had a long tradition of allowing workers to co-determine company policy. The relationship between management and works councils in the time when the family *Vogt* still owned the company is quite difficult to evaluate because of the difficulty of obtaining empirical information. There is no one who knows what the situation was at that time. In the period with *Whitestone*, the company co-determination policy was implemented, with close cooperation between management and the work council. They had many contacts with each other and management worked transparently for the work council.

“During the *Whitestone* era, the relationship was relatively good. We had a lot of interaction, and no information was withheld” (CS1-WC1).

More recently, with *Hammer*, co-determination became problematic, as this company doesn't have a long history with this sort of policy. At this time management worked with the works council on issues such as divergence in hours worked and violations of the collective agreement. They were not able to come to an agreement about the lengthening of the weekly work hours.

In the beginning of the *Tiangong tenure*, the employees were worried about the new owner and apprehensive about the future of *Vogt*.

“Sure, in the beginning there was a question mark” (CS1-GM1).

“Yes, the employees were skeptical and asked what the Chinese are doing here” (CS1-WC1).

The reasons for this emotional uncertainty might be:

- A general misunderstanding of the image of a Chinese company. They worried about losing their jobs, to be followed by the Chinese owner transferring technology to China and closing *Vogt*.
- A negative impression from the failure of other Chinese companies' previous attempts at internationalization in Germany.
- Worry about the large differences of approach toward co-determination

policy between the two countries. The work council had no contact with trade unions or workers' congresses in *Tiangong* and doesn't know anything about industrial relations in China. However, they had experience with co-determination policy in a workshop in Czechoslovakia and saw that there was a large difference. This caused emotional uneasiness among the employees.

- The negative influence of *Hammer*. During the difficult negotiations with the work council, *Hammer* threatened the employees with provocative language and led them to fear the Chinese company.

“The fear was caused by *Hammer* officials in their meeting. One said something to this effect: ‘if you don't agree, I will sell you to the Chinese. Then you will see where it goes’” (CS1-WC1).

On the other hand, there were also some positive thoughts about the takeover:

- The negative relationship with *Hammer* led to a hope for new owner.
“We have said that it could not be worse than now” (CS1-WC1).
- Primitively positive impression about the Chinese management because of their contact with the work council before the takeover.

“The vice-president of *Tiangong* was here and visited the work councils before *Hammer* bought us. He contacted us at that time. It surprised me. It is certainly difficult. The language barrier is really high against China. ... But we have an impression that at least there is someone investigating how it works here. After the takeover by *Tiangong* we have many more contacts with the management. When they are here, we often have contacts. It is a positive story for me” (CS1-WC1).

Confronted with the emotional uneasiness of the German employees, the Chinese managers held a meeting with them and declared their intention not to change anything about *Vogt*.

“Mr. (CS1-CM2) said, ‘*Vogt* stays *Vogt*’. That means that the employees will not lose their jobs through this acquisition” (CS1-GM1).

Of course, just a promise could not eliminate the suspicion and worry of the German employees. The best way is to develop the business. A flourishing business gives employees certainty that their jobs are secure.

“We must show the employees how we deal with the whole thing, how it works” (CS1-GM1).

“The most important thing is the improvement of the business. When we have outstanding performance and recruit new employees, they will trust us. The main thing which they pay attention to is the certainty of the work place” (CS1-CM1).

After a while the company profit increased and the suspicion disappeared. The relationship between management and the work council became stable.

“We have sold very much, plenty of turnover, plenty of benefit. ... I see simply that the employees feel well here finally and trust the firm” (CS1-GM1).

Additionally, the display of interest by *Tiangong* for continuous development was also an important sign to convince the employees to trust in the new owner.

“Now, at this moment, they have invested here to a high degree, also in social development. I must say that the employees can also see that there is something useful for them. There are new rooms built in the production zone. ... The whole changing room has been renovated with lots of money. ... We come into an absolute modern age today where people have also something presentable. It is really positive for the employees” (CS1-MC1).

Collective orientation model of management

According to Trinczek’s model (cf. 7.), the collective orientation model of management may be called “the pragmatic and power-referred orientation model”. There is not a general promotion of co-determination by management. The work council is seen more as an existing body and accepted, partly passively, as the works council represents the interests of employees and is legally regulated.

“We let this system work and must accept it in Germany” (CS1-GM1).

“The works council is legitimated in the law in Germany. All things which are regulated in the law we will obey ... We will also ensure all interests of employees that are regulated” (CS1-CM1).

“We have accepted the works council under law. We are not allowed to hinder a works council already established” (CS1-GM2).

The solution to the clash of interests usually comes from seeing their interest in cooperation. In the co-determination process, both sides have shown a rational and pragmatic attitude.

“The purpose of the works council is not to destroy the company. We have a common interest and co-exist. Our relationship is like ‘fish and water’” (CS1-CM1).

“We both know that we are not enemies and should not contradict another. We are an interest community” (CS1-GM2).

“We know that the works council should not simply oppose management. We are an interest community ... We should work together with one aim” (CS1-WC1).

Under this principle, management has agreed with the work council to rise the weekly work hours from 35 to 37 without payment.

“When the company has developed and all things work well, then we have not much to say. When it works badly, then people will complain” (CS1-GM2).

8.1.7 Perspective

When looking ahead to development of *Vogt* under the ownership by *Tiangong* in the future, the management, both German and Chinese, and the works council demonstrate a relatively optimistic attitude and expect that such a model should be continued. They believe that too many direct interventions in the management of *Vogt* will damage the development of business.

“How it continues in the future, we have not yet discussed about it. My personal opinion is that the local company must be managed by the *locals*” (CS1-CM1).

“It will be positive when the parent company continues implementing such strategy” (CS1-GM2 and CS1-WC1).

“The ‘worst case’ what I don’t hope it comes, would be that *Tiangong* will do absolutely nothing here. And we have many things to do that we transfer all things to China without discussion with the customers. ... But I believe that it will never come” (CS1-GM1).

In this case, we can see that both sides profited from the takeover. To a certain extent, the Chinese company used the German company to achieve its goal of internationalization. The German subsidiary became a dynamic factor

encouraging the parent company to continue this quest. In the German subsidiary, the takeover led to a stabilizing in the relationship between management and the employees. The co-determination mechanisms came to life again. The large cultural differences caused anxiety among the German employees during the takeover process. However, this anxiety in the German management was not expressed in the interviews. Conversely, employers showed an open mind and accepted the Chinese company as the new owner. To overcome these issues, both sides showed respect and understanding of each other and kept communication open. The parent company's strategy of standing back from the daily management operations also helped normalize the relationship between the two companies.

8.2 Case Study 2—*Ningman* Machinery Company

Essential points:

- The parent company is a family company in spite of being listed on the Hong Kong stock market. Family members own the overwhelming majority of shares and have most management positions. The subsidiary is managed by the son of a shareholder who is German.
- Green field case in spite of merged by a holding company.
- Relationship based on trust between the chief of parent company and the manager of the subsidiary.
- Small-scale German subsidiary—about 30 workers.
- International background of the German manager of the subsidiary.

8.2.1 Description of company

Compared to the first case study, *Ningman* is a relatively young machinery company which was established in 2005 as an engineering office, in the beginning with a personal investment from the CEO of *Waiyuan*, his German manager and a vice president of the company. Their shares were respectively 60 percent, 20 percent and 20 percent of the company. Its management was taken over by the son of the German shareholder. After the establishment of the company, the shareholder continued to invest in the company and extended its range of services to include the construction of automatic electronic machines. In 2006, the parent company was listed in Hong Kong stock market, and a year later merged with *Ningman*. Though the ownership of the German subsidiary went from private hands to the company's shareholders, it effectively stayed as it was, because the family members are the majority shareholders in the firm. At present, *Ningman* has grown from an engineering office to a factory constructing machinery with about 30 workers.

The parent company *Ningman—Waiyuan* was established 1966 in eastern China. In the beginning it was a collective-owned company and belonged to the village. Four years later, the first plastic molding machine was designed and brought onto the market. In 1993 it was privatized and became a joint-stock PC³⁰. According to the company report, in 1994 *Waiyuan's* production of

³⁰ This form of company was an important mechanism in the reform history of Chinese SCs including collective companies who belonged to a "collective unit", such as a village or a gov-

machine was the highest in the world, a position it has maintained until today. In 2006 it entered the Hong Kong stock market. A few points should be made about *Waiyuan's* development.

Firstly, ever since being established it has shown dynamism. An indication of this was *Waiyuan* being designated by the government as the “national company technology center” and a member of the “first group of national trial technology innovation companies” in rapid succession. This is a typical designation in Chinese for successful institutions, but to certain extent it shows the company’s ongoing efforts to innovate technologically.

“I think that it also came from the communistic time. I am also East German and we have also received medals every day. But the whole history is not so unimportant because we are one of only 88 ‘innovative companies’ in China. In this group there are only two machine producers. We are one of the two. It is not one-time announcement, but an ongoing process. Firms don’t receive this designation once and for all, but continuously evaluated. If we are not innovative the next time, someone else will be nominated” (CS2-GM1).

Secondly, the company underwent a rapid expansion. It could be a typical example of the development of Chinese PCs—rapid development after the reforms began in 1980, beginning in the Chinese domestic market with low-tech products, with support by government.

Thirdly, same as in the first case study, it begun early on to build an international business network. In 1989, it exported its first machine. In 1998 it built a joint-venture company with a German company. The joint venture company ended in 2005.

In spite of entry into the stock market, the listed parent company remains a family company. The company chief and his family members possess the majority of shares and occupy most of the management positions. Another important family is the German manager’s. He is also one of the shareholders and belongs to the board of directors, and his son is in charge of managing *Ningman*. In such a case it should be considered a family company.

ernmental institute. This model means sharing limited resources between the state—not only governmental bodies but also the village—and the company. Through reform private individuals took over the company as shareholders. They could be managers, employees, or other non-state entities.

The German subsidiary has enjoyed a positive economic situation to this point. Although the economic crisis in 2008 caused a drop off in business orders, the concern continued to grow. They had no months where they experienced a loss, and no one lost their job. Facing a drop in orders, they introduced a plan whereby everyone worked fewer hours, so no one needed to be dismissed.

“Yes, of course, we were influenced by the crisis. But we are particularly proud of the fact that we didn’t have a month throughout the entire crisis with a loss and we did not dismiss any employees. Of course we worked a few less hours, it is a little bit simpler in China than here ..., worldwide China was the first country to come out of the crisis. It took a little bit of political effort to resolve it. The situation with orders improved again and reached full steam. Of course we have the best delivery time and the best price” (CS2-GM1).

8.2.2 Internationalization strategy

Internationalization strategy of the parent company

In a sense, business trade with foreign customers could also be called “internationalization activity”. Therefore, the parent company began its internationalization history more than 20 years ago. Furthermore, the joint-venture project with the German company helped by giving it needed experience of coordination with foreign businesses.

According to one interviewee, the parent company didn’t devise a sophisticated internationalization strategy. Its internationalization activity was geared toward the practical demands of business development. It was not devised “in whole”, but makes decisions based on the analysis of the actual economic situation. Its investment in Germany resulted from this calculation.

“It is not strategy. It is a steady development. The company has always continuously developed and enlarged market segments steadily. It is a case-to-case decision. If we have a big deal, an important partner with whom we have a lot of offer, and them to us, we work closely with each other, so that we can build up own companies. It has been an ongoing development for many years” (CS2-GM1).

Motivations for internationalization

When we look at the reasons for investment in Germany, we can see three motivating factors:

- Seeking markets;
- Seeking efficiency—seeking technology;
- Seeking strategic assets.

Seeking markets as a motivating factor can also refer to seeking technology and strategic assets. These last two motivating factors will allow the concern to be able to entry a new market segment. Generally, its investment in Germany has been driven by the market competition with other firms. Rapid globalization has made that worldwide competition fiercer day by day. *Waiyuan* pursues a specialization development model, not a portfolio model. For 40 years it has focused on the development and marketing of plastic molding machines. When many Chinese companies began moving into other areas of capital investment in 2000, for example in real estate, *Waiyuan* stayed with its specific strategy.

“The branch which I do not understand, I will not invest in” (CS2-CM1).

Up to this point *Waiyuan* has gained a satisfied market share in the low- and middle-end market segments, although this is a saturated market segment with low profit margin.

“The firm is of course continuously bigger, there are many business-units. We make molding machines. By the way, I have been trained on molding machines, I can do nothing else. The company makes molding machines, which become ever bigger, better, and at a certain moment have reached a level where there they cannot be further developed for it was what *Waiyuan* has always done well, to offer a well-running machine with an extremely good price” (CS2-GM).

In this situation, *Waiyuan* saw the opening to reach the high level market in China. According to CS2-GM1, the opportunity lasted only a short time. To seize the economic opportunity and gain a share in this market segment, *Waiyuan* decided to establish a subsidiary to develop its high-tech machinery.

“Recently there were more and more challenges and more and more Japanese machines entered the Chinese market. Something has to happen for a Chinese firm to buy a Japanese machine. It doesn’t want to do this. *Waiyuan* asked itself, ‘what do I have to do?’. At this time my father became the member of the board of directors in the charge of strategic development to build a high quality machine” (CS2-GM1).

However, the current marketing strategy of *Waiyuan* does not emphasize marketing in industrialized countries. *Waiyuan* is confronted with a shrinking market in these countries for low- and middle level products. The reasons for this are the gaps in image, service, knowhow, etc. of Chinese companies vis-a-vis their Western counterparts. The main market share of *Waiyuan* comes from emerging economies and still industrializing countries. These are also the important target markets for the high value machinery of *Waiyuan*.

“Germany is economically totally indecipherable for the Chinese. There is a lot of protectionism in Germany, and they have a bad impression of Chinese companies. Therefore, they must make a very great effort, at least in this branch, to gain a very small market share. It’s not worth it. Our German representation has just been cancelled because it did nothing anyway” (CS-GM1).

Seeking efficiency. This motivating factor can be comprised of two things—seeking *technology* and seeking *structural efficiency*. To develop a high value machine *Waiyuan* faced both external and internal difficulties. The external difficulty is the existing institutional restriction—partly in the social institutions and partly in German companies—of high-technology transfer from foreign countries to China. For instance, there is a technology transfer barrier from Germany to China. As is known to all, the top high technology in mechanical engineering has been developed in Germany. Therefore, direct investment in Germany is an efficient way for *Waiyuan* to avoid the technology barrier and gain German high technology. This can also be considered seeking *technology*.

“If you look at it carefully, there is a great deal of protectionism of high technology countries. I am not able to continuously expand high technology developments in China, because I don’t know what products will be delivered. If I begin working on a development, I am not interested in what is in the catalogue and what is in the next catalogue after that. I am interested in where the development begins. When I have finished a machine, then I know exactly the products that are in the market. You shouldn’t trust a high technology company to share with a Chinese company in China what products it is developing right now. No chance. Moreover the very large companies who don’t even sell their newly developed products any more in China; instead they offer something older, because they think they don’t need it any more” (CS2-GM1).

Another difficulty what *Waiyuan* confronted when investing in Germany was an organizational obstacles. To develop new high technology the existing technological competence of *Waiyuan* employees might become an obstacle. The managers thought the interference of the technology department of the parent company was a very big problem when they decided to go to Germany. To avoid the negative influence of the parent company, the managers made the decision to establish the *Ningman* privately through a joint-venture, not in the name of *Waiyuan*. Through this measure they gained *structural efficiency*.

“*Waiyuan* is a pure family firm. The only one chance was, as my father has seen, to take away the ability of the technology chief to say which way to follow—certainly not our aim. I must set up a separate firm without any influence from the firm after all, that the technology chief has no influence on how the machine looks. The challenges are different ... He has always influences the materials used or what features the product has, so that the goal cannot be reached” (CS2-GM1).

In order to explain the problem more clearly, he has used a metaphor of an auto:

“I cannot let a Bugatti developer make a VW Polo. Nobody wants to pay for it. Also, I cannot tell a VW Golf developer, ‘build a 1000 PS auto for me’. It will be awful” (CS2-GM1).

Seeking strategic assets. The brand strategy is also a significant factor driving *Waiyuan* to establish a completely new subsidiary in Germany. Before it established itself in Germany, *Waiyuan* already had two brands produced by its two subsidiaries in China. One brand is a machine for the low range technology market, the other for the middle range market. With entering the high range technology market and obtaining long-term competitive capability, developing core competence in high technology is not a challenge for *Waiyuan*. *Waiyuan* confronted another difficulty that almost all Chinese companies face when expanding their business, especially entering into the high range market. It is the company image. In the machinery branch “made in China” means low and middle ranged technology. To avoid this embarrassing problem, *Waiyuan* took the step of developing a special brand for this market segment.

“A bad example is in the automobile industry where people see that the VW Phaethon doesn’t work. Better to start a parallel development project with an-

other name, where a higher quality machine is built, developed and marketed, in order to have a better chance of penetrating the market. It was the original idea” (CS2-GM1).

The German engineering team and the German location are well-known benefits, for the words “made in Germany” represent the top quality in the world. The name of “*Ningman*” is “mixed”—partly Chinese and partly German. It was thought up by combining the family names of the Chinese manager and German manager of *Waiyuan*. Its Chinese translation refers to a hope of a “big future” and reflects a Chinese cultural background in a sense.

“It is well chosen. One can also derive meaning from it. It means, soaring to the sky and flying everywhere” (CS2-GM1).

Logic behind the location choice

Looking into the logic of the choice of Germany for a destination, besides the motivating factors mentioned above, could be the social relationship between the Chinese manager and the German manager in the parent company, as both have known each other for long time. The German manager is a worldwide renowned expert in this branch. Working on the joint-venture project between *Waiyuan* and the German company in China they built up a social relationship. After the German manager left his former company they came to an agreement to establish a joint-venture company in Germany. Then the German manager was invited by *Waiyuan* to join the management team as an equal partner in 2006.

In addition, the son of the German manager, who is the current manager of *Ningman* and has been also educated in mechanical engineering, also became a member of this network and is responsible for the management position in Germany.

“In Europe we quickly settled on Austria, Italy and Germany. Because of the problematic administrative law in the other countries, we landed in Germany” (CS2-GM1).

In addition to this reason, this process was also influenced by Chinese culture. In choosing a location for business or housing, or constructing a building, *Fengshui* is a significant factor for many Chinese. This factor was on display in this case, even though it took place in a foreign country.

“For different reasons we relatively quickly settled on this corner. Of the 12 locations to be chosen, we reduced it to five. A few fell out because of *Fengshui*” (CS2-GM1).

Institutional difficulty of residence in Germany

It should not be considered as a “difficulty” which the German subsidiary confronts in its development, but rather as “discrimination” arising from previous knowledge of the local institutions about the generally bad image of Chinese companies. It can be seen in the tax control process. The German subsidiary faces relatively extensive control by the local tax department, especially in its initial stage when a lot of investments need to be made and it has not yet made profit. This means that it doesn’t report a profit and still receives financial support from the parent company.

“Everything works correctly of course. But someone can suspect that I am intentionally misrepresenting facts. We as a Chinese company are under extensive observation. They were just here again. Well, it isn’t funny” (CS2-GM1).

8.2.3 Management models

As a family company, the parent company also displays a management style employing with very little hierarchy, but a great difference in power exercised. The managerial differences between the parent company and its German subsidiary are big. The German manager of *Ningman* has experienced these cultural differences in his interaction with the Chinese manager of the parent company. In this case, despite being established openly, the parent company’s management style has little influence on the German subsidiary and obviously has not penetrated deeply. The cultural differences in management style are revealed in structure, power distance, incentive mechanisms and decision-making.

Decision-making

As discussed, management in the parent company is the typical Chinese decision-making style. There is no institutionalized restriction on the manager making a decision, even in spite of the position on the stock market. There is little discussion with co-workers not in the “family”, particularly for important strategic decisions.

“Decision-making processes are no process, rather decision-making seconds. A decision will be made right now” (CS2-GM1).

Such a decision-making model produces an advantage for a company to seize business opportunities and improve speed for business development. But on the other hand, it can also easily lead to wrong decisions. Supporting this decision-making model, the CS2-GM1 explained, using once again an auto simile:

“A wrong decision is better than none at all. When I make no decision, nothing happens at all. Then I have not only no brilliant solution or only an average solution, but no solution at all. When I cannot decide if I want to have a BMW or a Mercedes, I can think about it three years long, but in these three years I don't have any auto. If I go there tomorrow and decide on a BMW, it can be that the Mercedes is better, but a BMW is always better than none at all for three years. Then there is always a choice of a new BMW again after three years” (CS2-GM1).

Organizational structure

Both the parent company and its German subsidiary have been organized with a flat hierarchy, despite a lack of influence from the parent company, but with different power distribution based on the various competencies. The reasons for selecting the same organizational structure for both companies might be different.

The parent company is modeled on the family. The core management team of the firm is comprised of family members. They occupy the important managerial positions and control most business departments. Although it has been structured with multi-level hierarchy according to functional responsibilities, the leaders of the lower level departments do not have much authority to participate in the decision-making process. Their functions are mainly limited to serving as a “transmitter” of business instructions from the superior levels to the lower ones and as a “controller” making sure they are carried out. From this perspective, we can see that the company organization is characterized by a centrally-organized power center through its strong hierarchical levels.

The organizational structure of the German subsidiary is both flat hierarchical and more sharing in competence responsibilities compared to the parent company. Making an overview of its organizational structure, it appears there

are generally three levels: the manager, the long-term employees and the temporary project-supported employees. The long-term employees have been given much more autonomy than those in the parent company. The German manager tries to intervene less into their daily work unless they turn themselves to him for a required approval. Paradoxically, in this situation the German manager would like to have “the last word” on the decision-making of the business, so he is able to control all business operations.

“We have almost no hierarchy. There is one person who has something to say. And it will be passed on by lower section heads, department leaders, and group leaders. We don’t have such things here. Of course everyone has capabilities and qualifications, but the hierarchy is canceled. In the end, all things run come from my desk ready-made” (CS2-GM1).

The temporary employees are normally from another engineer firm and stay only until a project been finished. They obey instructions from other company levels.

“If he wants to do it, he will do it, full responsibility. It is left to him to decide what will be done. The three software-employees of another firm are totally under his direction. He says what will be made, finished. So he is actually leader of software department” (CS2-GM1).

The organizational structure of the German subsidiary seems not to be directly influenced by the parent company, but designed by its German manager. But actually or indirectly, the idea of setting up a flat hierarchy with a great deal of difference in decision-making authority was partly determined by his interaction with Chinese managers in the parent company. This influence can be seen in his agreement with the decision-making process of the parent company and also the highly centralized structure. Otherwise, his paradoxical attempt to share decision-making with employees aims to create a “family” climate and structure in the company.

“The concern is of course a little bit bigger, so the family will be divided a little bit further ... every important department is headed by a family member. From below everything is decided at the top. We work hard to implement decisions, and allow a lot of input into how best to do that at all levels. I believe that everyone has input” (CS-GM1).

Another reason for the selection of this organizational model is determined by the company's core task, in this case engineering. The nature of construction work and software programming are very hard to plan in written form. The employees in this field have to therefore be given much autonomy for time and plans in a given framework. But on other hand, because of this a small team can work under high pressure on required tasks with high efficiency.

"We have extremely few people sitting here. For a project like we are implementing here, building a complete machine, in other companies at least ten times as many employees would be employed in other companies. When I cannot decide everything myself, he simply decides and implements it" (CS2-GM1).

A flat hierarchy also means no chance of promotion. The widespread sharing of decision-making competence means less chance of attracting employees to the management track.

"I had a personnel talk with a software engineer. I have asked what he thinks about the company. Yes, he would like to have decision-making authority. I told him he already has it. Ok, those other things, I tell someone to do it and he does it. But if I don't tell anyone to do it, it gets done anyway, because everyone has complete decision-making authority" (CS2-GM1).

Control mechanisms of daily work

Furthermore, looking at managerial skills, the production controls of both companies are obvious different in controlling tensions and their incentive mechanisms. To build the commitment of the employees to the company, the parent company emphasizes less the psychological demands on the employees by work than the German firm, but stresses material incentive more. An often-used practice was for the parent company to build a residential area and sell apartments to the employees for a cheap price under appropriate conditions. The employees might work in the company for a longer time to maintain their right to the apartment. Thereby the parent company maintains a stable group of workers.

"In China it is pure financial incentives. Credit for an apartment, so company credit, your own apartment. When the employee resigns, he must give up his apartment right away. If he retires, it is always there for him" (CS2-GM1).

The parent company has used money as a reward and a punishment in the production control and the work areas.

“Of course we live in a monetary society. But the Chinese economy has pushed it totally to the peak because everything there is regulated through money ... In China, everyone who came too late to work pays 100 RMB (Chinese currency) for five minutes ... Through money, money punishment, money reward. Put ten machines together without the QC noting one mistake, then you receive 100 RMB extra” (CS2-GM1).

The work climate in the German subsidiary looks like as a German model with less strict control and written guidelines. The German manager continues the German work tradition of paying attention on the psychological demands of the employees. He tries to create a free working atmosphere. Pause and relax time are not controlled. He considers these measures as a motivation for his employees.

“The reward for employees is basically different. With us it is that you can make a pause when you will, and coffee is free. A football game is down below. Football playing is work time” (CS2-GM1).

8.2.4 Control structure

It appears that no special control mechanism exists in the company. There is nobody taking on the role as interface who represents the interests of the parent company and is sent to the subsidiary to supervise the business operation. Also special communication channels between two companies are not set up, instead of these there are the German manager and his father. Responsibilities between them are not clear. Besides, the business performance of the German subsidiary is not assessed and controlled. It is not assigned a yearly quota of production and profitability. However, there are two unofficial business methods for the parent company to control its German subsidiary — the trust based relationship and financial reporting.

Trust based relationship between Chinese managers and German managers

The existing social network with the German manager could be a significant factor for *Waiyuan*'s successful investment in Germany. The Chinese manager has known the father of the German manager for many years, perhaps since the joint venture project with the German company, where the father of

German manager worked before he went into *Waiyuan*. Today, he has an important position as strategic manager and one of the shareholders. His son was persuaded to take over his current managerial tasks when the German subsidiary was established. Both families always considered the whole network as a united “family” group. Obviously, this relationship is based on trust and reduced costs between the parent company and its subsidiary. This “family” social network, based on trust, is also revealed in the financial reporting activities.

“I take the money that we receive for financial resources, I take it as a gift of the family and feel obliged to document every cent and what we have done with it. They are very far away and don’t know what we do. The only question I get about it is very quiet and trusting, so I make a strongly structured and simple report” (CS2-GM1).

In such an advantageous situation, they still deal with this trust quite carefully to reinforce it and avoid the erosion of the trust-based relationship. Also in the financial reporting the German manager has showed his intentional effort of caring for this relationship by the interaction with his contact person in China.

“I don’t know if I must, but I do it. I cannot just give out money and assume that it has already happened. I call it a trust established measure with my dear colleague in the accounting. I just ask everyone, inform everyone, so that I hope to give my partner such a feeling that he is involved with, that he knows always what’s going on here” (CS2-GM1).

Financial reporting

Financial reporting may be the only visible and defined control measure of the parent company over its German subsidiary. The current financial reporting system has been formed according to the demands of effective and flexible operation of the German subsidiary. After the company was listed on the stock market, the financial control has not been changed. The financial resources have been directly remitted from the parent company with the budgets handed in by the subsidiary. Mainly the budgets go on two forms.

One of the forms is the yearly budget. It is a strongly and clearly structured one and covers the normal financial demand for the next year. The first draft of the yearly budget is drafted by the German manager himself. Simultaneously, the discussion between both sides will be continuously held about the

necessary revision of the draft. Another form is the single budget. It takes place when an expense has not been listed or exceeded the amount in the yearly budget.

The financial system works flexibly and its controlling mechanisms look relatively strict. The German manager must know the every detail of the capital flows and report to the parent company and sometimes ask for approval. The budgets of the subsidiary have never been refused.

“It is private asset. Yes of course” (CS2-GM1).

8.2.5 Technology cooperation

The German technological knowhow is one of targets for the parent company's establishment of a firm here. As a new established subsidiary the way to obtain the technology is through its engineering team. All employees come from Germany. The number of workers is about 30 now, of which the half is office workers, most of them development engineers. They are the most important resource of technology knowhow and may increase in the near future. At this time, both companies cooperate in technology in two ways.

The first way is strategic cooperation. As mentioned before, the “*Ningman*” is a new high-tech machine brand made by *Waiyuan*. It can be also considered a new technological development of the parent company for a new market segment. Its product series is ordered with the planet system. In the beginning it was developed as a project of the parent company and brought onto the market. After then it has begun to develop its own high-tech and electronically driven machinery. The first model machine “Mercury” has been finished and is already in marketing.

In order to achieve the target of producing its own high-tech machine as soon as possible, the German subsidiary works now on the design and programming and then builds the machines with different parts of the best quality worldwide bought from the top companies. Now, the former engineering office has been transformed into a production factory.

The products are highly standardized. It produces almost no special machines for one customer. By this philosophy the company has achieved a high performance.

“It is what we have also done so efficiently in the whole building-up. We screw the level a little bit higher, build more things into the machine. For this we have relatively less possibilities of extension. Through the high level of standardization one can also go through sooner and more effectively. I save a complete step in the construction process ... We are ‘sorry’ we are more successful. For it I always use a computer as an analogy: all PCs in Aldi included a TV-card at one time. Though only maximal 10 percent of buyers have watched TV on the computer at all, to select the TV-card as an option has cost more than just to install the card in all computers” (CS2-GM1).

Another technology coordination method is sending employees for training to the parent company. This may be the central mechanism to transfer the competence of the German subsidiary. Because of the small scale of the engineering team in the German subsidiary, it is not able to send engineers to China to train their Chinese colleagues. The parent company sends a small group of engineers to its subsidiary for the purpose of not only learning the competence of their German partner but also to join in developing a new machine.

“We have three people rotating always one or two times here. When they are here, they work in our projects and incorporate influences or development knowledge in the Venus machine. When they are then on the site, they work also exactly in the same way” (CS2-GM1).

8.2.6 Industrial relations

In this young company the labor force has not been yet institutionally organized. There is no work council and also they don't have close coordination with the trade union, namely IG-Metall (Industrial Union of Metalworkers). The German manager will accept the establishment of a work council without objection. Because of his experience he is opposed to the trade union.

“I may have no problem with it (work council). Only I will not like to see a trade union. I was active with trade unions for very very long time and know exactly what's going on. You cannot work with them” (CS2-GM1).

Co-determination is not to be found in other ways in the company, but runs informally through the assistant as “mouthpiece”. It is thought that there might be two reasons for the absence of institutionalized co-determination. One objective reason may be the relative new establishment of the company and its

core business of engineering development. The team work has been relatively less regulated by the written down rules. The other subjective reason might be the demand on the effective work of the employees. As mentioned before, the small team works with a higher efficiency in comparison with its German counterparts. However, the high efficiency means also big work pressure. One of the organizational ideas of the German manager is to reduce the institutional friction through the flat hierarchy. A co-determination mechanism is considered a deviation for employees so that they cannot concentrate on the given tasks.

“I have already an assistant as ‘mouthpiece’ ... It is a little bit of a disadvantage. Then people don’t have much time to gossip with others for the whole day. There are of course a few times when they so talk about something carefully. If the distance to managers is far, then they would rather ask the assistant if an umbrella underneath below. Otherwise no one would like to say directly: ‘we need a parasol’” (CS2-GM1).

In order to enforce the commitment of the employees to the company and reduce personnel turnover, the company has offered them a bit higher salary level than elsewhere in the region. Otherwise, the salary level is determined by two factors: one is the qualification of employee; the other is the past work experience. On average, the employees are a bit better paid but among them salary differences exist.

“The people are classified according to where they come from. It is easy enough when looking at where they are in their careers and in the same field. We pay a little more than in this region, slightly over it. I am not the highest earner in the firm for a long time. The work I have done is always good. But there are two here ranked higher than me” (CS2-GM1).

The model of human resource management in *Ningman* could be classified as the “autocratic and autonomous” model³¹. The company is organized with a flat hierarchy. In such a structure, the employees have almost no chance for career promotion in the company. As a compensation for this, the manager grants the employees autonomy by working, but in the framing of the general projects arrangement of the company.

³¹ S. Böhm and Lücking. 2006.

“Yesterday or the day before yesterday, I talked with a software engineer. He wants decision-making authority. I say, ‘yes, you have already’. OK, the others have made these. I said, ‘you should hold on to make it by yourself.’ No one said that he should make it. I will not write it down. If he wants to make it, then he will do it, with full authority to decide as he wants” (CS2-GM1).

8.2.7 Perspective

The German subsidiary has achieved a satisfied business performance for the parent company. Looking into the future, in spite of a bit unclear vision for the German manager, the subsidiary might be continuously expanded in the production and labor areas. The contribution of the German subsidiary to the parent company can be continued.

“Of course we are proud of this. The manager has a great reputation in the region. They are the second biggest employer in the area. He is also known as a high grade entrepreneur throughout all of China. The reputation only improves with such an international history. It is not only a company, but also a development vehicle. Of course there is pride in the whole history, but it is not clear for me at least that he focuses on it” (CS2-GM1).

In this successful case, the social network may be the key factor in it. The familiar relationship between the CS2-GM1 and the management of the parent company helps the trust building between them. Moreover, the engineering background of the CS2-GM1 assists him in managing the German subsidiary. There is no influence from the parent company to be seen and the cultural clash also never happened. On the one hand it is due to the full operational autonomy of the CS2-GM1 granted by the parent company. On the other hand, the parent company has chosen the ‘green-field’ model and employed a German as manager, without transplanting its own management system from China.

8.3 Case study 3—*Hubert* Tool Company

Essential points:

- Middle scale German company.
- The German company has its own productive subsidiary in China.
- The parent company is a SC and large scale ranged in the “Fortune” list of “the global 500 biggest companies” since 2007.
- Short history of business contact before the takeover—after the residence of *Hubert* in China in 2002.
- International experiences of the German manager.

8.3.1 Description of Company

As a precise machinery producer *Hubert* has always made business in this branch throughout more than 30 years since its foundation in 1977 with the name “*Niessel*”. It was founded by a few shareholders. Its main business is precise tools, such as drills and milling cutter. During its development *Hubert* changed its location to its current place in 1982, restructured in 1989/1990 and was renamed *Hubert GmbH* in 2000. The change of structure in 1989/1990 took place because of the business diversification of the shareholders. They founded a new AG company as headquarter of the group of companies, and *Niessel* became a subsidiary of it. “*Niessel*” was developed as a valuable worldwide brand until 2000 and then sold to a German company, so that the company was renamed to the *Hubert GmbH*. There was no real effect of the name change.

The international activities of *Hubert* can be traced back to 1996 when its first overseas subsidiary was founded in Singapore. This subsidiary has 18 employees currently and is charged with servicing, marketing, etc. In 2002, it established its first subsidiary in eastern China. In the next year, a productive subsidiary was founded in another city in eastern China. Its production started in 2004. Also in this year, *Hubert* founded another subsidiary in Seoul, Korea. In 2009, the next year after the whole acquisition by China *Tianlong*, *Hubert* began its close cooperation with Nanchang Cemented Carbide, which belongs to the China *Tianlong* and another state shareholder of the province Jiangxi through a joint venture in 2003. One of its products is micro-drills and routers.

In this cooperative endeavor, *Hubert* is responsible for tool production. It also has business representatives in many countries.

Currently, *Hubert* has 271 workers in total. Compared to the time before acquisition in 2008, the sum of workers has not been obviously changed and saw just has a slight increase rise after the acquisition. In 2008 the number was about 250. The majority of the workers are in its Chinese subsidiary, which counts 170 workers, of which 135 are actively involved in production. In Germany, *Hubert* had about 220 employees a few years ago. Because of the production transfer to China, the number of employees was reduced to about 110. Now *Hubert* employs 80 workers in Germany, of those 55 are responsible for production. In the small productive subsidiary in Singapore there are 18 employees and 10 works on production. In the trade office in Seoul Korea, three employees work on the marketing and service.

The biggest market for *Hubert* is Asia, thereof the China market is the most significant. According to the annual report of *Hubert* in 2010, 62 percent of its products are sold in the Asia, about 35 percent of them in China. The other important Asian markets are Japan, Singapore, Vietnam, and Korea. The second regional market for *Hubert* is Germany, where it has a 19 percent turnover. As the third target market, the rest of European countries accounted for 12 percent of *Hubert* turnover.

In these years *Hubert* confronted marketing difficulties worldwide, including Asia. The marketing pressure can derive from two factors. The one is the price pressure. High quality is always accompanied by high price. In the high technological market segment there is often a disadvantage for a company—a lower demand than in middle or lower level market. Moreover, in general, the product quality of its competitors—for instance in China—is continuously improving and is approaching that of *Hubert*, though it is hard to surpass them at the moment. The other reason is the financial crisis since 2008.

Chinese parent company

The parent company of *Hubert*—China *Tianlong*—was founded in 2001 by the China *Xinhua* Corporation, with other five companies. The business of *Tianlong* consists of the procurement, mining, marketing and production of non-ferrous metals resources and rare and short supplied resources and minerals, such as copper, aluminum, tungsten, antimony, lead, zinc, precious, tin, nickels and rare earth. It holds shares in about 20 companies through different

models, wholly-owned, holding majority of share and also minority of share. In 2009 the turnover of *Tianlong* amounted to about 4.7 billion Euro and about 0.22 billion Euro of profit.

The main parent company of *Tianlong*—China Xinhua Corporation—is a mega SC which is ranked in the “Fortune” list of “the global 500 biggest companies” since 2007. *Xinhua* holds a 90.27 percent share of *Tianlong*. Its businesses cover diversified branches—not only the products of raw resources, but also the finance market, logistics and real estate. *Xinhua* developed originally from two state-owned trading companies. The first one is a mining company and established in 1950. The other one is a trading company and founded in 1952. It was responsible for the import and export of steel products, non-ferrous metals, electrical engineering and communication equipment and products, etc. In 1960, these two companies were merged. In 2004, its name was changed to “China Xinhua Corporation”.

The survey of the history of *Xinhua* represents three business development marks—agglomeration, diversification and internationalization. The agglomeration activities of *Xinhua* are too intricate to be explained in detail. In public there is also little information which has painted a detailed picture of their activities step by step. Only from its report in the Internet can we have a glimpse of this process. In the beginning, *Xinhua* was a trading company. Its businesses were the import and export of electronic products, natural resources and corresponding products. The latter became its main business. The organic expansion of *Xinhua* began since the Chinese economic reform and opening-up. It began investing abroad, and establishing subsidiaries on the provincial and regional levels. It also merged or obtained the controlling power of many companies, the majority of which is state-owned through holding shares. In the background of these activities there were the Chinese reforms of the SCs driven by the government. In other word, its development depends on the strong support by the government. Today, *Xinhua* owns or controls 65 subsidiaries in China and 23 abroad.

The business diversification of *Xinhua* began in 1984, when it established a subsidiary of the business, involved in international engineering and construction materials and was later involved in the hotel industry. In 1993 *Xinhua* began its entry into the financial market with the establishment of an investment

company with another state investment company. Today, the business of *Xinhua* has already extended to real estate, logistics and insurance.

Xinhua has already experienced internationalization since its establishment in its primary business of import trade which could be its first business contact overseas. In 1980 it began its investment in foreign countries. In this year it has set up representative office in several countries and its first overseas subsidiary with a Belgian company. Here I will note some steps on the path to internationalization by *Xinhua*. In 1998, *Xinhua* for the first time obtained loans directly from international capital market and successfully issued commercial paper in the United States. In 1998, *Xinhua* was ranked at the 35th place among the list of top 50 transnational enterprises in the developing countries in the world by the UNCTAD. In 2008, *Xinhua* purchased all the shares of Canadian Northern Peru Copper Ltd. with another Chinese SC. This may be the first overseas merger & acquisition of *Xinhua*.

8.3.2 Internationalization strategy

Process of acquisition

The willingness to sell *Hubert* may derive from its economic situation. From what the previous owners reported, it sounded like a strategic choice for the concern. They plan to reduce their business spectrum. But, in the background, the difficulty of retaining their current market share under extreme competition may be causing this initiative to sell the company.

“Diplomatically expressed, our old possessors wanted to concentrate on the core business and wanted to sell *Hubert*” (CS3-GM1).

“The marketing is difficult in this moment. The market is 80 percent in Asia, 30 to 35 percent of it is in China and Taiwan, a big share also Japan, Singapore, Vietnam and Korea. The prices there are very low. We must also sell our tools in these markets. Thereby the price pressure is very, very high. The economic situation is also conditioned by the last crisis, and so of course correspondingly problematic” (CS3-GM1).

After the decision to sell, the owners and management concentrated on finding a purchaser. In this process the management played the role of “wirepuller”. The management has contacted its Chinese business partners. Since its establishment in China in 2002, it has closer business coordination with Chinese companies than before. Among its Chinese business partners, *Tianlong*

showed interest in acquiring *Hubert*. After six months they reached at the agreement on acquisition in 2008. The reason of for *Hubert's* choice of *Tianlong* may be its big scale on the one hand, because *Tianlong* is ranked among the 500 biggest companies of the world.

“We are already in China since 2002. We have established *Hubert* in China in 2002 and also already made our tools with raw materials from *Tianlong* at that time ... Then we have taken a look around who could have an interest. The owners asked their contacts and we heard: ‘there is someone who could have interest with *Hubert*. Then *Tianlong* came, and they found the idea interesting. Then we started bargaining” (CS3-GM1).

“The whole process lasted a little time. There was the analysis, etc. It was also caused by the intensive discussions in *Tianlong*, but also with the former owners. It was long for both sides. It was good that we could also participate a little to push the whole thing along. But for such a procedure half year is normal anyway and now it took perhaps almost one year. The negotiated disagreed continuously. For the meetings one might fly from Munich to Beijing and back again” (CS3-GM1).

The other reason may be the productive suitability of *Tianlong*. There were two candidates on the list finally — *Tianlong* and a German investor. The other one is not a firm, but only a capital investor, which may not match *Hubert's* development plans for the future.

“It was a capital investor, the German one. Not a firm at the right way, but a capital investor” (CS3-WC2).

In the whole history, the German management has regularly informed the employees the actual situation of the acquisition. The sufficient information to the employees favors the acquisition progress.

“I have said during the whole process that the fact that the former shareholders want to sell *Hubert* should be open, i.e. we have informed the workers about the fact that the former shareholders want to sell. There, I have regularly informed the workers about the status” (CS3-GM1).

Motivations of acquisition

As an active internationalization actor in the last decade, *Tianlong* has shown why it is motivated to do so, such as seeking markets, and seeking raw materials. In its acquisition deals before, it wanted to obtain the access of raw ma-

terials. However, in this case, *Tianlong* had an *efficiency-seeking* motivation. This motivation means it intended to obtain *technological knowhow*. It aimed to utilize the technological knowhow of *Hubert* about hard metals, integrate it into its whole production chain, and improve added-value. The technological knowhow is about the knowledge and experience with hard metals that *Hubert* possesses.

“The reason is the ‘value-chain’. The Chinese possessor is a mining company. They advance also wolfram carbide ... Now they want to have indeed the whole hiding chain, not only mining, not only development, not only sintering, but also till finished products in a chain. Thus they have bought a tool manufacturer which helps it improve the total chain. The Chinese hard metals manufacturers are ‘so so’. They lie under the Europe quality level. Because we use the hard metal of the Europe manufacturers and also of Chinese and Japanese, we know which hard metal is good and which is bad. With our expertise we can help the Chinese chain to be more stable and better, so that they could also sell the hard metals to others. It is no technology innovation, it is primarily only knowhow” (CS3-GM1).

Though the knowhow of *Hubert* is the main goal of the acquisition by the Chinese company, in the mega Chinese concern the production of machinery tools is also not a strange business. They have also already been working in this field for a certain time. However, the in-depth technological knowhow—not only of evaluation of the quality of hard metals, but also of production of tools—transfer can also take place between two companies.

“*Tianlong* has a division Tungsten Hard Metals, whom we belong to. It makes 20 percent of *Tianlong* and owns mines and also other tool companies. Insofar we are completely suitable to it” (CS3-GM1).

Institutional difficulty of residence in Germany

The change in ownership of *Hubert* directly caused difficulty with local financial institutions. After the acquisition by Chinese company *Hubert* is officially identified as a Chinese company and it became difficult to obtain a loan from the local bank. Its credit has been damaged merely by an ownership change.

“Yes, there is. Because of the fact that we have a Chinese parent company, there is a difficulty with a German finance institute, because they have the fear that the money will be taken away to China. They finance only with an owner-

ship declaration. It would be completely different if we were a German company. We are a German company but have a Chinese shareholder” (CS3-GM1).

The reasoning could be led back to the general “bad image” of Chinese companies which is rooted in the German society. This consideration might be partly a prejudice and partly a real reflection of the problems of Chinese business. Although the parent company of *Hubert* is ranked in the global 500 biggest companies and state-owned, which means on the other hand strong support—including financial support—of government, the local bank still worries that the loan granted to *Hubert* could be taken away to China.

“But look, this company is ranked in the world 500 biggest companies list. It is already a very large company and international” (CS3-GM1).

Currently, *Hubert* experiences a difficult economic environment and has a financial loss. In order to balance the deficit and also implement a new investment plan, the parent company must provide *Hubert* financial resources every year. With remittances, there are also some bureaucratic restrictions if the parent company wants to transfer money directly from China to *Hubert* in Germany. Therefore, the Chinese subsidiary of *Hubert* became a key channel for the remittance to avoid the restrictions.

“Now we are financed from China, through *Hubert China*. *Hubert China* receives the money and remit here. It is very easy” (CS3-GM1).

8.3.3 Management models

In this case, the cultural differences displayed in the management models would not be only compared between the German subsidiary and its Chinese headquarters, but also between the German subsidiary and its own subsidiaries in China. In the interview the German manager explained more experiences with his Chinese management of its Chinese subsidiaries than with the management of its Chinese headquarters. According to his experience the management cultures seem similar to the state-owned parent company and its own Chinese subsidiary, but there are some small differences.

Communication barriers because of the cultural divergence

The interaction of Chinese colleagues with German managers faces some obstacles. They could be considered a “language” barrier. But if this is addressed, it could be found that there is the cultural gap which often causes the misunderstanding. From the research results of Hall, the Chinese culture be-

longs to the high context oriented group and German culture to low context oriented one. This difference is reflected also in the experience of the German managers.

“I have learned it when I want to bring something into the management in China, I explain at first, then I give it in writing, so that they can read it later. After then I must give the space, a chance, to every co-worker, it would never happen in Germany, so that he can come to me and say, ‘I haven’t understood it’, because if he say it publicly, he loses his face. It is a definite difference to a German who doesn’t interpret a lack of understanding of a material question as losing face, rather say directly, ‘I have a question here’. Then one must declare it. It is totally normal” (CS3-GM1).

As the German manager talks about his experience with his Chinese managers of *Hubert China*, the first impression is the language hindering the communication between two parties. But if look at the communication, the finding is that the cultural character makes it difficult for Chinese managers to overcome the language barrier. Since “keeping face” is a real important task for many Chinese, it is hard for a Chinese manager to say “I don’t understand what you said” in the team meeting, when this expression means “losing face”. In the following quote from a German manager we can also see another communication obstacle caused by the cultural divergence.

“The German, also my management is a management with clear declarations — clear goals, clear declarations, yes or no, also a decision. A decision is not good for a Chinese. A Chinese doesn’t say ‘no’, he says nothing, keeps mum. No Chinese says ‘no’, he says, ‘mmh, I must think about it’. This means ‘no’, but he doesn’t say ‘no’” (CS3-GM1).

By the discussion Chinese colleagues prefer avoiding a direct negation or refusal with indirect expressions such as “keeping mum”. In China, it is a typical traditional phenomenon that the direct negation or refusal, especially in publicity, should be an impolite manner.

Hierarchical structure

If only comparing the organizational features of *Hubert* with those of *Hubert China* and its state-owned parent company, it can be said that they all have been strongly hierarchically organized with clearly defined structural levels in

spite of their organizational divergences in small things. With a few sentences from the statement of the German manager this similarity can be felt.

“Though we look better structured and organized, China is more hierarchical. Germany is also hierarchical but discussed.” ... “The Chinese parent company is a state company as the Bundesbahn or a large German concern” (CS3-GM1).

Although the similar organizational structure, there is a definite hierarchical divergence—power distance—among them. By this case we can take a glimpse of the divergence of power centralization degree between German company and Chinese company, also between Chinese PC and Chinese SC. Firstly, let’s have a look into the difference between *Hubert* and its Chinese counterparts. In the managerial praxis, the power delegation in *Hubert* has been less centralized but relatively egalitarian than in Chinese companies. This feature displays obviously in the decision making process.

“The Chinese believe more in hierarchy than German. ... When they sit in a meeting of management in China, the chief from Germany comes and talks something in English. Then it is translated in Chinese because there is one or another manager who doesn’t speak English. If I would like to ask, ‘have you understood everything?’, then all Chinese say ‘yes’. Because when I as chief explain something to the Chinese chief and he says ‘yes’, then all the others say also ‘yes’. This ‘yes’ means ‘understood’ in Germany. This is a communication problem. “Heard” doesn’t mean ‘understood’, and so on” (CS3-GM1).

In this experience of the German manager the communication problem results not only from the initiation of Chinese managers to “keep face”, but also maybe from the high hierarchical perception of Chinese. The lower ranked Chinese managers may see the communication with the German chief the authority field for their Chinese chief. The conduct—“say yes” following the Chinese chief—reflects the perception of other Chinese managers to “play” properly after the rule of rigor hierarchy.

Furthermore, the centralization of the Chinese chief could also been seen in the lessened participation of his colleagues in the decision making process. They express almost no opposite opinion against the Chinese chief in decision making even when the decision made by the Chinese chief is wrong. For them expressing an opposite opinion against their chief means a damage of his reputation which may also lead to a bad relationship with him.

“A German says ‘no’, end, finished. In China not. In China you must learn that they try to always stay in the hierarchy if you need a decision from a co-worker. It means that you must bring the leader to a decision, then his co-workers will support it together. I have never experienced that when a Chinese chief is positive in a conversation, a co-worker is negative. This fits only ‘mainland’ Chinese by my experience, not Taiwanese, Singapore, and so on” (CS3-GM1).

In *Hubert*, the chief manages with less centralized power and works in high dependence of a team together or introduces more discussion with other colleagues. Revealing his uncertainty about certain knowledge or expressing a wrong opinion doesn’t mean a damage of his image and reputation. The German manager conducts his managerial praxis more materially than Chinese chief. This issue may appear in the attitude of taking over the responsibility for a mistake and resolving the problem.

“In China it is very difficult to shoulder the responsibility, i.e. there are always explanations why it didn’t work in this way when something doesn’t work or a mistake happens. There are 1000 reasons. I say always to the Chinese managers that there are many ‘reasons’, but it is not ‘excuse’. And this ‘excuse’ is difficult. I talk to them, ‘you have the responsibility, you must accept it.’ And he always explains me why it didn’t work. In Germany it is quite so that the manager shoulders also the responsibility. He cannot influence the process 100 percent, but he is responsible for the process and takes on the responsibility. In China people seek for explanations why something didn’t work. In Germany people try to organize in the next step, ‘now we must do this and this, so that this happens’, because the responsibility stays by the only one worker thus” (CS3-GM1).

The Chinese manager prefers to shrink or refuse taking over the responsibility for a mistake. For them accepting responsibility and saying “excuse” may not just mean accept the fact that he has caused this mistake and must pay some material cost for it by himself. Furthermore, its meaning might be mixed with denying his management capability by his German chief, losing face, damage of his reputation, and so on. In some extent, this high context oriented attitude dims the significance of resolving problem to prevent the recurrence of the same mistake. From the following statement by the German manager, it could be felt that the shrinking of responsibility of Chinese may be a personal custom in China.

“While I have been working with Chinese workers, I have also experienced obviously that the appointment must not be held as scheduled. There would be then many explanations why they are not punctual” (CS3-GM1).

For German manager, the issue of accepting a mistake is low context oriented and usually doesn't extend to a personality acknowledge in such a high degree as for Chinese manager. They see “made a mistake” as a “normal” thing, which cannot be under his control completely by work, to shoulder it. Accepting responsibility is not the only important issue. He considers the resolution of problem as another significant issue on the next step. He will devote himself to analyzing the problem and innovating the managerial praxis or production process so that the problem will not come again.

When taking a look of the hierarchical centralization of *Hubert China* and *Tianlong*, the structures have been organized with high power distance. The management models display with same hierarchical culture.

“If I discuss it I experience the same structure: big boss, middle boss, small boss, other boss. Their conduct is similar in a certain way. The culture is the same” (CS3-GM1).

Nevertheless, between these two parties there is still some subtle differences in the power delegation which could be seen in the decision making. The chief of *Hubert China* normally has the last word over his colleagues in management issues, if excluding his superior German managers. The participation in the decision making by other managers is highly limited by his dominant position. But in *Tianlong*, the CEO delegates much power to his partners in management to participate in the decision making process. This power delegation is motivated rather by passive than positive intention.

“One thing isn't allowed to happen in a state company: a mistake. In a private company the mistake is normal and one must learn from it. One must take care for it as management so that the sum of the mistakes stays small as much as possible. But it cannot be possible to build up such management system from the outset so that no mistake emerges. There will be always mistakes. However, it is often so in large companies in China that such mistakes are very difficult. It is of cause difficult for a large company because it means that many people are bound in the decision-making-process to ensure that the decision is ok, or to make it sure that many were a part of it if it is not ok. It costs time and is very strenuous” (CS3-GM1).

In appearance, motivating the other managers to take part in the decision making is to avoid a false decision or mistake in every possible way. But the real reason of it is the CEO's attempt to avoid shouldering the responsibility of a mistake alone. The CEO of a SC is always a functionary of the government. He is appointed directly by the government in a certain term. A mistake may hinder or hurt of his promotion. If he made a decision with the whole team, the risk could be also shared by other managers.

Decision-making

The features decision making in these three companies have been already partly described in the last paragraph in order to interpret the hierarchical structure. In this part the decision making will be demonstrated in greater detail. Compared to *Hubert*, the decision making process in Chinese companies is a lack of sufficient discussion with colleagues, too hierarchically dependent, implementation difficult and time wasted because of too much institutional restrictions.

“The decision-making is difficult in China because they don't have the argumentation. If you build a team now and you want the team to make a decision, you can directly ask the leader of the team, because there will be no one in team who makes a decision opposing the leader. In Germany you have discussion about everything” (CS3-GM1).

For the reason of the high centralized hierarchy there is a lack of discussion about an issue to make a decision in *Hubert China*. The chief has the dominant influence on it so that the opinion of other colleagues could be easily ignored. Such a system can lead to quick decision making and simplify the procedure, but it could be also imprudent and cause some easily avoidable mistakes.

“If you have a subject now and the leader of the team isn't expert but the coworker is expert. You want to arrange a target date with the leader. You say, 'we finish it in half year'. Then it is perhaps a very big project. The following happens: The Chinese chief says, 'ok well, we finish it in half year', because you are the chief and he cannot say 'no'. And his coworker who knows that we cannot finish it in half year says nothing, because he is the chief. In Germany, if you want to arrange a target date with the chief and ask, he says, 'I think so'. Then he will turn around and says, 'what is about you, my masters, do you also think so?' If one has doubt exactly, he will request a short time out and think

about the date again. One meets together in a quarter of an hour and discuss about it. Then they will come to the result that it doesn't work. Consequently I have a result as an interlocutor. Otherwise, I have the thought that we finish it in half year, but we cannot finish it. So we maybe need three quarters of a year" (CS3-GM1).

The example by the German manager shows the influence by the overemphasized hierarchy on the argumentation during decision making. In *Hubert*, the egalitarianism led to an open discussion about the advice of the chief and achieved a logical decision in the end. In *Hubert China*, conversely, the recognition of high centralization exists not only between Chinese manager and his colleagues, but also influences their judgment about their German chief. They took the advice of the German chief as an instruction and ignored their own opinion, though it is right and important that the German manager know their opinions. In the end, it led to a mistake.

The second difficulty of the decision making may not be the point of "making" but of "performing" the decision. In the next story from the German manager we can see how communication barriers cause an obstacle to carrying out the decision.

"By the direct communication with the German management you can find out if it has been understood or not. They say it. The Chinese don't say that they haven't understood it. The Chinese goes. And then one wonders after a few days why it doesn't take place what he wants. He has not understood it, but it has not been talked about" (CS3-GM1).

The German manager has tried to trace back to the cultural roots to analyze this phenomenon. He ascribes this obstacle to the cultural difference that Chinese culture emphasizes more on script than German culture. Thus, the management operations should work more with writing in China than in Germany.

"I think it is important to know that the Chinese culture is a written culture, not a spoken culture. It means that the old Confucius was on the road with his boards through the various provinces in China, each with their own dialect. One sees the figure of Confucius always with boards, namely often with pens and boards. My view and also what I have discovered is that it is a sign of that the communication in China works very tightly with writing, runs with document and with paper. Not verbal. Verbal is only normal communication ... but by the conten-

tion is very much in written form. One explains something and then there is in writing” (CS3-GM1).

The inference of the German manager is quite different to the research results of many scholars who have commented that the managers in Chinese private PCs prefer to use direct communication to pass on information to their colleagues and neglect the written forms, such as paper and email. It is also hard to judge the validity of his opinion, because, assumed, the non-reaction of the Chinese managers to the decision of the German chief could also origin from several possible factors. For example, the German chief perhaps hasn't assigned the tasks to the right person. Or the Chinese managers have not understood the assignment of the German chief. Or even negatively but possible, the Chinese managers' might misuse the German chief's insufficient recognition of Chinese culture to delay his instruction intentionally. At least, it reveals the increasing effort of the German manager to recognize the cultural background and handle things locally. With the goal of overcoming this difficulty, the German manager has planned to set up a systematical regulation to institutionalize the decision making process and its performance in written form.

“What I have done is intelligent, if one is in a Chinese organization, is that one writes much more the regulation work in detail, such as making a decision, than in a German organization. I also would like to do this in a private company because the cultural differences are so large that it affects the decision-making capacity. It is easier for German management to make decision if there is a clear decision-making authorization structure who can decide it, very clear and also partly very meticulous, information responsibility, decision making participation. The more accurately one writes it, the more easily one works together with the Chinese” (CS3-GM1).

The third disadvantage of the decision making process is the “time-consuming” process which takes place often in the Chinese SCs. The decision making in Chinese SCs lasts quite longer than in Chinese PCs and also in German SCs. With the work experience in German SCs the German manager has compared the decision making models of the SCs in two countries and found that his Chinese parent company makes a decision along a complex procedure and takes more time than in German SCs.

“The Chinese parent company is a state company as the Bundesbahn or a large German concern. This is essentially correct, even though there are differ-

ences in decision-making-processes. The decision-making-process is obviously slower than the decision-making-process in corresponding German organizations. A state company decides more quickly than a Chinese state company. ... When someone is angered by the German procedure, he should compare it with Chinese procedure. It lasts obviously longer because many more persons are involved. There are also many more Chinese, and there are also many more officials to ask" (CS3-GM1).

As discussed in the last point, an importance reason of the "time wasting" of decision making in the parent company is the chief's intention of sharing risk with other managers. Besides, because of its ownership structure, its decision making is restricted by many political institutions. The institutional restrictions aim at protecting the SCs from the damage by the management, such as corruption, illegal capital transfer, but they also defer the decision making.

"The Chinese state company has much more restrictions, capital restriction, currency restriction, loan awarding restriction. A Chinese state concern who has decided to internationalize shall pay attention to these state restrictions, not only the laws—in any way—but also the restrictions of capital flows in addition. If they need credit, the Chinese credit supervision department must check it. If they obtain the credit from foreign countries, the Chinese credit supervision department must check it. If they want to export materials, they need an export license. If they must deliver a machine to China, they must apply a corresponding certificate by the import department. There are much more regulations in China than in Germany. We also may have them but things runs quicker" (CS3-GM1).

8.3.4 Control structure

Control mechanism

The control structure between the Chinese parent company and its German subsidiary looks similar out as in the first case study and could be described with the phrase of the German manager—"swim in a pool". In this structure the subsidiary has been granted full autonomy for daily operations. In the "pool" the management can decide by itself in which direction and with which style, tempo and rhythm he "swims".

"Within these frames I have the full autonomous decision-making capacity, as 'swim in pool'. There are edges. In the pool I can swim as freely as I want. We

have regulations, about them I can decide, and above them the shareholders must decide, so we decide together. I decide at first and I let it be approved. If I plan very large investments, the shareholders undertake also a larger decision-making-process in *Tianlong*" (CS3-GM1).

After all, he must "swim" inside the "pool", or, in other words, his movement is restricted by the "four edges of the pool". With these "edges" the parent company built up the arena where the management of the subsidiary plays. In this case, the "edges" comprise a body of business plans and the capital upper limit of new investment.

"By investments over 250,000 Euros the Chinese shareholders must decide. ... There is budget plan, operative plan and annual balance sheet, we must present and they will be approved" (CS3-GM1).

Besides, necessarily, there should be someone to oversee the status of the "swimmer" to prevent him from "aberrance". This role is played by "the supervisory board" which consists of five persons who are all Chinese. None of them is chosen by the employees. They are all directly appointed by the shareholders and represent their interests. The "supervisory board" is not a classical one and may not have much institutional structure. Its functions are displayed mainly in contact with the management of the German subsidiary and the meetings which are held three times in the year.

"It is so-called 'supervisory board', but no delegates of employees are on it. It must not, German law has not required it. The supervisory board is in China and the communication runs through telephone and email ... We have the supervisory board. I report to the supervisory board. I must let it approve corresponding procedure along which transcend a certain level. On other issues I must only inform them how I have made decision" (CS3-GM1).

The "supervisory board" is mostly the first organ for the communication with the *Hubert* management if the management wants to make a decision which is out of the limit of his authority and not approved in the annual plans beforehand and needs approval from the parent company. Furthermore, by the communication with the parent company the German manager must select the right extent of information transfer according to the institutional functions. This may help to build a smooth work relationship with the parent company based on trust. Additionally, the financial reporting also builds a way of com-

munication for the parent company to know the business status of its German subsidiary and has also control effects of decisions.

“There is a monthly reporting. Through it they are regularly informed. If questions come, I receive a letter or a call” (CS3-GM1).

Appointed Chinese colleagues

In the German subsidiary, there aren't directly appointed Chinese workers at this moment. There were two Chinese colleagues in the management of *Hubert* for 1.5 years after the acquisition. One was procurator, the other one was representative leader for finance and controlling. After their stay in *Hubert*, they were both promoted. One is now responsible for *Hubert China* and another one went back Beijing and took over a place in the core of the company. Their tasks in *Hubert* might be partly as controller but short-term oriented. Currently, new Chinese colleagues appointed directly in the management of *Hubert* are unlikely.

Capital remitting

In last two years, *Tianlong* should have given the subsidiary financial support for new investment and balancing the business deficit caused by economic adversity and the impact of the financial crisis.

“We have no profit remitting contracts. There is no profit remitting. It will be decided every year in Germany what happens with the profit. *Tianlong* hasn't transferred any profit from here to China. ... There were financial resources, financial support of *Tianlong* for *Hubert*, for investment. We have also made losses which must be balanced. They have paid them. During the critical crisis 2008/2009 *Tianlong* has given the group money to stabilize the situation” (CS3-GM1).

8.3.5 Technology cooperation

In the interview, the German manager mainly focused on depicting the divergences of production processes between *Hubert* and its subsidiary in China. Then, the technological cooperation between two is mainly achieved by mechanical training of Chinese employees.

Production process capacity

According to the interviewee, the production process in *Hubert* is more stable and substantial than in *Hubert China*. The German company keeps innovating

in the production process continuously with more efforts than its Chinese subsidiary. It is found out that the process philosophies between German and Chinese workers are rather different. From the statement of the German manager the differences are revealed in three aspects.

One difference is “*keeping it stable*” in German workers and “*changing it spontaneously*” in Chinese workers. After a stable process has been designed and brought into producing, the German workers devote themselves to caring for and maintaining it running stably. If someone finds that one or some parts of the process should be innovated, he must ask the opinion of the whole team. When the team comes to an agreement, then they can begin with the process change. Such a team-oriented philosophy leads to high stability and innovative capability of the production process. The Chinese workers have also the desire to innovate the process, but they lack this philosophy and don't knowhow to keep the process stable. Thus, things go often against their wishes that they harm the stability of the process and leads to big quality problem. They often change the process personally and spontaneously, without discussion with the team.

“The Chinese mentality is obviously that, always to do something better. They are very interested in doing something better in the company. Always to be better. It sounds good, is also a good basic attitude, only when they have processes, they shall be stable. Then the processes are not allowed to be simply changed. In China the processes can be changed by Chinese workers. The German worker says: ‘Ok, this process is stable. We must do everything so that the process stays stable’. A German worker would change process only when he says: ‘we can change the process, I have an idea, a process advice, a basic idea’. Then it will be talked about. And then the process will be changed. In China the worker changes the process simply by himself. And it can cause a big problem with quality. Thereby they could cause the problem of unstable production processes” (CS3-GM1).

The other divergence is German workers as “*Tüftler*” and Chinese workers as “*problem evader*”. “*Tüftler*” is a German word and embraces such a group people who are interested in trying to find out the difficulties through thinking and experience. Maybe due to this aspect of mentality, the German mechanics have an active attitude of confronting the problems emerging in the production process. They try hard to resolve the problem right now, or operate it

to bring it under control temporarily so that the problem cannot harm the product's quality and then clean it up later. In its subsidiary in China, the workers tend to avoid the problems with a "flexible" tactic. They devote less to move the hindrance than to find a device to bypass it. The German manager has described this divergence among two groups with the metaphor of "water flow".

"The Chinese form of problem solution is obviously very likely as that of water. Water goes downwards. When it meets a hindrance, it bypasses it, and exactly the same with the next one until it arrives below. Below the point must not necessarily be where one wants to arrive. The Chinese ship around the problems. From the other point of view, the German go along the direct way and try to solve the problem. The German method is partly very time wasting and resource harmful. But it is obviously the basic attitude. If one knows where one wants to go, one tries to go there in a direct way. Meantime there should be some problems. These problems must be resolved. The Chinese say, 'when we want to come from one point to another one, and there are problems between them, we must bypass them'. But it means that the problem remains. In China the problem can stay, in Germany one tries to operate around the problem if one cannot resolve it right now. It means when I repeat the process, the German system has the advantage, that the problem does not exist anymore and one goes through smoothly. In Chinese the problem exists continuously. It is sometimes quite difficult for me because the same problem appears always repeatedly. I say, 'if it already comes at the third time, why you don't resolve the problem'. They say, 'no, no, perhaps it doesn't come again'. I don't think so. My experience talks to me, 'ok, perhaps it doesn't come soon again, but maybe the day after tomorrow, and the problem meets you at one time when you have hectic rush or stress. Then you try yet to resolve the problem in necessary. Then you are free from this problem forever'" (CS3-GM1).

From this metaphor we can see that with rather different attitudes they both are able to reach the "destination". If only focusing on the single production assignment, the product quality from German company may be not much better than it from Chinese company. The product of Chinese subsidiary could also meet the quality requirement of its parent company. In a sense, it takes less production time to perform the assignment that its German parent company who "wastes" time on operating the problem. But the essential difference is, that after then, the German company resolved the problem, cleared the hinder "on the way" and made it straight. Finally it obtained an innovated and

more substantial production process and is ready of working more efficiently for next assignment than before. The Chinese subsidiary will be often disturbed by the same problem and is not able to guarantee the product quality in enormous quantities. Furthermore, it owns low capacity with innovation of production process. Lack of capacity of production process hinders the technological innovation and quality improvement in China in long term. It is maybe a significant reason explaining the overwhelming advantage of productive technology in Germany.

“I think that the process capacity — structuring processes, organizing processes, penetrating processes, planning processes — is much stronger molded in the German management or in the German logic than in China. Also deriving from this, my opinion, that the German technology is better, because if they want to develop technology, they must think the process through. If one formulates and says provokingly now, that the Chinese intelligence exists in copying something what is also difficult. Copying something right well is also an art. Then I think that it will take some time. But through the better process capacity in the German technology and management this advantage is obvious there that there is always a more stable product. It will be changed and China will also catch up quickly. But it will take yet a certain term of time. This is my explanation, especially by our company, if we develop products or tools in Germany and at the same time we develop tools in China, the tools what we have developed in Germany are more substantial. It doesn't mean that the Chinese tools are worse, but the Germans' are more substantial. They resolve the problems which a Chinese hasn't thought about” (CS3-GM1).

Thirdly, the lower qualification level of mechanical skill of Chinese workers than of German workers restricts the innovation of production process. Generally, in China there are less high-level educated mechanics ready in the labor market to immediately take part in production than in Germany. The majority of Chinese workers must be equipped with production skills by the company itself before they begin with the right productive assignment. In Germany, almost all productive employees are well-educated and the mature engineering education system provides a large well-qualified mechanical reserve.

“The qualification level of the Chinese workers is low on average. It means that one must qualify very much himself for it in China in order to receive the Chinese workers with a level to produce high technological products as such micro

drills. This is not the case in Germany, for people had been very well educated. Also essentially the Federal Republic has a clearly higher qualification level than for example the region Shanghai” (CS3-GM1).

Technological cooperation

The major model of technological cooperative activity is training mechanics of *Hubert China*. As discussed in the last phrase, *Hubert* must train most Chinese workers with mechanical skills by itself. There is no training task for *Tianlong*. The training takes place in both locations. In *Hubert China*, the German experts sent from the German parent company teach the Chinese mechanics the basic knowledge of operating machine and productive technology. Then, several Chinese mechanics would be selected according to the personal capability and come to *Hubert* for advanced training. Because of the high expenditure the trainings are held more in China than in Germany.

“We have sent trainers to China who have been educated to produce the tools. It began really from zero on. We have arranged Chinese colleagues from China to Germany to be trained here, on the machine with our persons together” (CS3-GM1).

The training in Germany for the Chinese mechanics is often not just deemed as a pure “learning trip”, but as a form of mechanism for the management to incite the motivation of the Chinese mechanics. The Chinese mechanics profit from the training with learning technological skills and trip to foreign country. In addition, their productive conception has been impacted hardly by the German high productivity during their working together with the German mechanics.

“They were amazedly, with so little persons but still one can work. One must not have always 100 to 200, but it can be also less” (CS3-GM1).

8.3.6 Industrial relations

Divergence of industrial relations between Hubert and Hubert China

In China the binding of the employees to the company is quite looser than in Germany. Many Chinese employees don’t emphasize on or are not interesting of fixing their labor relations with the company through long term labor contracts. They change their work place with high frequency mostly without resignation in any form. In Germany, the employees have normally long solidarity with the company. In rare instances employees go job hopping. Reversely, it

is pretty normal that an employee stays in the same company his whole life until retirement. This could also affect the difficulty for the company to innovate its production process if the team is hardly to be stabilized because of high fluctuation in personnel.

“In Germany it is very rare that the workers resign. The workers in Germany are normally relatively long with a company together. Though it has been changed somewhat through the different crisis, there is an interest in long term employment not only in the company but also among the workers. In China they have the problem, if they are private companies, that the direct attachment of Chinese workers with the company is not easy. When you have lot of people, they, for example, work in Shanghai, but the family live in the rural area. Then they have, for example, Chinese New Year or moon fest. When they all go home there is a tremendous turnover, it means the people don't come back. They go away, then stay by the family or seek something else. Then you have to start again to train” (CS3-GM1).

Relationship between management and work council

Because the manager talked less about the relationship with the work council and his attitude to the co-determination policy, the orientation model could not be evaluated in this case. The relationship between management and the work council is 'close' and 'rational'. In handling conflicts, both parties work in an open communication together and with a rational mindset. The unilateral perception of interest and decision making by the management is not felt.

“Sure, there are often a few conflicts. It is normal. But the important thing is that we work rationally together to find out a resolution. Not just saying: 'we are the work council and we need it'” (CS3-WC1).

In the current difficult economic situation of *Hubert*, the certainty of the work place became the main interest of the employees. The work council gave in on some points and showed their willingness to shoulder operational difficulties with the management.

“It was 2009. We—work council, employees, management—have said, 'we give up Christmas and vacation money'. Voluntarily. Thereby *Tianlong* sees that we think highly of the work place” (CS3-WC1).

Influence of takeover on German employees

Same as in the first case study, the takeover has caused also anxiety among the employees about technology transfer and the loss of work place. Now, the degree of this emotion has been reduced in some extent because of sufficient communications between management and employees and the stability of business after the acquisition.

“Of course the workers worried about that the technology will be transferred, they will lose work places, etc., if the Chinese takes over the company. We must take these worries seriously. Hence we have also discussed about the worries openly, and tried to make the people clear what the alternative could be. The alternative was not so good. The possibility to work with a Chinese shareholder was better. It was reasonable, I think, to inform the workers, the works council and the trade union of it early and open” (CS3-GM1).

“The anxiety is not worse than before. Now it is quieter” (CS3-WC1).

Influence of takeover on the industrial relations

The direct influence from the parent company on the industrial relations of *Hubert* has not been seen. Only the awareness of improving the work situation among the employees in *Hubert China* has been a result. In China, the industrial relations are better in SCs than in PCs in general. After changed to a subsidiary of a SC, the employees of *Hubert China* began to articulate their claim of improving some work conditions according to the level of SC.

“The social welfare benefits have not been bettered completely, things such as pension, health insurance etc. We pay our social welfare benefits fees just so as before. But it is the framework. They wanted then other foods in the canteen. They wanted their own cook in the canteen instead of letting the food come in. It was really fun. It was small thing. It was not something outrageous, but it was already a difference. Earlier they never tried hard for this issue. But now suddenly they mentioned that they are now a state company” (CS3-GM1).

8.3.7 Perspective

About the future, the manager has a positive perspective that with the new ownership *Hubert* has an advantageous access to a raw material and good opportunity to expand market share in Asia with the support of the *Tianlong*. With the knowhow of *Hubert*, *Tianlong* is able to level up its product quality.

“I think that the tool group will be stronger and better. ... Generally, I see the development quite positive, at least, if I compare with the situation when we were alone. The alternative will be that Hubert is alone and then would be small at long time” (CS3-GM1).

In this case, we can see some cultural differences between the German company and Chinese company—both state and private. In the German subsidiary, the parent company hasn't intervened in the daily operations. Thence, the cultural difference has not led to real conflict finally. When looking into the relation between *Hubert* and *Hubert China*, people can see how the cultural differences influence the coordination between two groups and which problems they have to overcome. The take-over case is still a profit for both companies. But it is unsure how the German subsidiary could be in the future. Now, there is no certain strategy or long term plan for the German subsidiary planned by the parent company.

9. Argumentation

The three research objects portrayed are all of the cases of “merger and acquisition” by their Chinese parent company. The situation is only coincidental, not planned in advance. The “merger and acquisition” model at this moment showed more the strategic operation of Chinese HQ than a choice of entry model. Thereby they have evaded many institutional restrictions of the listed HQ and won the time and operation space for the development of the German subsidiary.

Based on these empirical results, though the fewness of the research objects—only three, we can use them as a “segment” of the “whole” and analyze the internationalization of Chinese company in Germany in some extent. Firstly, here I will generalize the motivations of the research objects to internationalize in Germany, and the difficulties they encountered and encountering. After then, I will present the interactions between the Chinese companies and their German subsidiaries in several fields with the figure of research concept which has portrayed in the beginning of the paper. Lastly, as an important aim of the paper I will examine the factors for success of the research objects internationalizing in Germany and lay emphasis on the factors which are worthy of being copied by the other Chinese companies who are internationalizing or will internationalize in Germany.

9.1 Internationalization strategy

9.1.1 Motivations of internationalizing in Germany

In the Chapter 4, I have described four typical motivations of the Chinese companies to invest abroad—to seek market share, resource, efficiency and strategic asset. In Table 12, I have sorted the aims of the case studies of internationalization in Germany to the four motivations.

The table reveals that the *technology knowhow* is the only one objective which all these companies pursue. This may point out that the German technology which is the best in the world is the most important factor attracting the Chinese companies to reside here. As the “world factory”, if China wants to improve its competitiveness in the world, it has to innovate in its production technology as soon as possible. For the Chinese companies there is the same task, except their own effort of technology innovation, obtaining the given high technology from Germany is the shortcut to promote their own technology and

shorten the gap to the companies from industrialized countries—as two German chiefs declared in the interview, it might be an impossible ‘mission’ for the Chinese companies to overtake the German technology in the near future. Obviously, straight purchase of the technology directly from the German company often is hindered by the unwillingness of German company and also many German institutional barriers—law, policies, etc. Thus, direct investment in Germany became the favorable way for Chinese company to achieve this target.

Table 12: Internationalization Motivations of Chinese Companies in Germany

Motivation	Practice	Case Study
Market seeking	Obtaining the existing market share of German subsidiary in high-end segment	CS1
	Expansion own market share in middle- and low-end segment helped by German subsidiary with technology knowhow	CS1
	Penetrate into high-end market segment with new brand	CS2
Resource seeking		no
Efficiency seeking	Technology seeking	CS1, CS2, CS3
	Avoiding structural obstacle	CS2
Strategic asset seeking	Obtaining existing valuable German brand	CS1
	Developing new brand	CS2
	Managerial knowhow	CS1

In the empirical results there is rather no information for us to calculate to what extent the German subsidiaries have transferred the technology to their Chinese HQs. We can also see there may be rare technology transfer in ‘hardware’ form, for example with machine transfer³², patent handing over, from the German subsidiaries to their Chinese HQs. But there are exactly many ways for the Chinese companies to absorb and utilize German technology effectively and sufficiently. They include:

- Utilization of technology knowhow though integrating into the whole production chain. In the case study 3, the HQ might not directly obtain the technology knowhow from its German subsidiary. It reveals also no direct technological knowledge transfer between them. It looks that the German subsidiary still retains the technology knowhow internally.

³² In the case study 3, there were productive machines shipped from the German subsidiary to its Chinese subsidiary before the acquisition. After then the German subsidiary has trained Chinese mechanics in China and Germany for operating these machines. It is only an internal transfer in the German subsidiary for production transfer to China and doesn’t relate to the Chinese parent company.

However, through the integration into the whole productive chain of the Chinese parent company in spite of its full operational autonomy and technological “independence”, the utilization of the knowhow is realized for the parent company. In this chain, its expertise for evaluating the quality of hard metal became the complement for the Chinese parent company and direct support for efficiently level-up its products out of the hard metal.

- Production technology knowhow transfer. In the CS1, it is not yet clear whether the core competence of production technology has been transferred to its Chinese parent company. But by the interviews we have been told in some extent that the skills and knowledge for how to produce a machine with better quality than before in the Chinese parent company is “transferred” through the technological assistance of the German engineers. This “transfer” promotes a quick increase in product quality and saves the time of technology innovation of the parent company.
- Recruiting German engineers as a direct access to the resource of German technology. In the CS2, the Chinese parent company emphasizes this for developing its business of both of its companies in China and in Germany. In China, it has invited the retired German engineer who is the senior expert in this branch to join into the management with rich remunerations—salary and share—to take charge in the strategy and development. The meaning of the affiliation of the German engineer is not only the enhancement of the technology and strategy competence for the Chinese company, but also a “key” to open the “gate” towards Germany for more technology knowhow. The latter effect might not be calculated by the Chinese managers at that moment. His son, also an engineer in this branch is nominated later to be the manager for the German subsidiary. The employees of the subsidiary are all recruited from Germany. With the recruitment of the local engineers the Chinese company achieved its goal of developing high-end machines.
- Training the Chinese workers. In order to improve the technological level of the workers, the Chinese parent companies see the German subsidiaries as a technology “trainer” for different aims. The one is to improve the skills for service after sale, for example in the CS1 the

Chinese workers are sent to the German subsidiary regularly to learn the skill for service-machine operation and repair. The other one is for the Chinese engineers to update technology knowhow through working together with their German fellows. In the CS2 the engineers from the Chinese HQ come to Germany rotated to work for several months with German engineers. The coordination takes place in different technological fields.

Obviously, these forms of technology transfer helped the Chinese parent companies to better their technology knowhow quickly, though it is hard to evaluate to which extent they have innovated their technology in China. From the interviews in CS1 and CS3 we can already see this effect now. Also estimated by some interviewees, the technology transfer cannot help the Chinese companies to catch up or even outstrip the technology of their German counterparts. In other words, the position for German company as an “owner” of the highest technology in the world could not be threatened by the ownership change to Chinese in the near future. Interpreting the reasons we could align some points hiding in these case studies which restrict the technology innovation in Chinese companies:

- Low ratio of educated mechanics in Chinese companies. The education for mechanics in Germany is more systematical and popular than in China. The productive workers in Chinese companies have much lower proportion than in German companies.
- The low-level experiences of Chinese mechanics. As the CS1-GM1 declared that building a top machine is not only the matter of the construction by engineer, but also depends on the experiences of the mechanics. Most experiences could not be learned during education, but “by doing”. In China, education for mechanics is far already behind that of Germany in general, and the mechanics have almost no experience in producing high-end machines.
- Mentality leads to lack of production process capability. The CS1-CM1 and CS3-GM have both mentioned the divergence of mentality between Chinese and German workers. The flexibility and few perception of team work of Chinese workers cause the instability of production process. As CS1-CM1 said, “as an individual, a Chinese is not worse than the German, but as a team, the German one is better”.

Following the *technology seeking*, the *brand* and the *marketing* might be the other important factors attracting the Chinese companies to come here. In the CS1 and CS2, for the purpose of obtaining a valuable brand, the Chinese companies had different ways. The one has brought an existing world-famous brand and the other one gives effort for setting up a valuable brand by himself. Both have performed well in the meantime. The new brands mean for both companies access to the high-end market. Since the product spectrum of the companies covered only middle- and low-end market, their old brands are not easily to be accepted by the end customers demanding high-end products. However, they made the same brand strategy to compete in every market segment with different brands. The CS1-PC has now two brands for high-end market, middle- and low-end respectively. The CS2-PC owns now already three brands which are used for high-, middle- and low-end markets.

The new *brands* mean also the new chance for *marketing*. The CS1-PC obtained the business network through purchasing the German subsidiary entirely. After the takeover the management made an effort to care for the existing business network to prevent it from the damage by the owner change. Furthermore, the Chinese management began to gain more share in the middle- and low-end market with the coordination with the asset of the German subsidiary. Except through the technology knowhow transfer, they gained some market share with a customer-specific strategy. Regarding the different financial situation of the customer they offer coordinated machine whose hardware is from the parent company and steering system from the German subsidiary. The machine is stuck with the both brands and sold with cheaper price than the machine wholly produced by the German subsidiary. Onwards, the parent company has planned to entry into the German market with own machine with the help of the network and good image of its German subsidiary. In the CS2, the parent company concentrates on the market in the emerging markets or industrializing regions and tries to obtain share of high-end market with high-quality products. Even if they are developing high-end machines with totally new brand, they don't want to give much effort for marketing in other industrialized countries, especially the German market. They have experienced the hardship to market their machine in Germany before.

Furthermore, the *managerial knowhow* of a German company may be another beneficial effect for the Chinese company. I would rather consider this factor as a 'side effect' of the Chinese companies' internationalization in Germany

than as 'goal'. Without question, the management in German companies is more professional as in Chinese companies on average. But it lacks evidence from the study that learning the professional managerial knowhow is one of the initial aims for their internationalization in Germany. The divergence of management styles has been directly felt by the Chinese after the beginning of interaction between the German and Chinese management. The transfer of managerial knowhow to China is initiated by the Chinese management spontaneously without plan before the takeover. The extent to which the managerial knowhow could be transferred depends closely on the learning capability and motivation of the management. In the study one can see the learning motivation in the Chinese management as a manager said, "when we see something good in their management, then we learn and bring it to China".

Finally, as *efficiency seeking*, the "*avoiding structural obstacle*" is hard to be clearly defined as an "absolute" motivation. It took place in the CS2 and may be mixed into the motivation of the Chinese company to make the decision of the entry model in Germany. Anyway, through such a model — first found by the CEO of the parent company and his German partner together in the private name and merged by the parent company later—they avoided successfully the structural restriction and disturb and built an autonomic arena for the subsidiary, so that they could concentrate on developing new machines. This may prevent the German subsidiary from wasting time on handling the management of the technology department of the parent company—an '*efficient*' strategy.

9.1.2 Drivers and facilitators of internationalization in Germany

Regarding Table 3, the forces which influenced—driven or facilitated—the Chinese companies in the study to internationalize in Germany could be summarized with three aspects—market pressure (driver), governmental support (facilitator) and willingness of German subsidiaries (facilitator).

Firstly, the force which has driven the Chinese companies to acquire the German company or found own subsidiary in German is often the increasing competition in China's domestic market. On the one hand, even if the Chinese companies have already a good market share in domestic middle- and low-end market, the increasing competition caused low profit margins for them. On the other hand, the pressure came from the entry of more and more foreign companies. Some of them have products with better quality and higher tech-

nology. To overcome these pressure the internationalization in Germany to obtain high technology and penetrate into the high-end market is a good choice for them. This may also answer the question in the section (4.6). There is no time for Chinese company to build international capacity in China before they go outward because of the factual market pressure. The best way to success internationally may be “learning by doing”.

Secondly, the strong governmental supports facilitating the Chinese company to internationalize in Germany. The supports from the government could be direct and indirect. During the acquisition of the two German companies by Chinese SCs, their tight link with the government helped them to receive easily the direct supports from the government. The indirect supports are the “go global” policy of the government. It has relaxed the restrictions of regulations and implemented a setting of policies to encourage the Chinese companies to invest abroad. This indirect support led to a dramatic enhancement of internationalization of Chinese companies. All these three cases took place after the “go global” policy.

Lastly, the ‘willingness’ of the German subsidiaries helped the Chinese companies to acquire them smoothly. The takeover of two German subsidiaries proceeded smoothly. During the acquisition the managements of both subsidiaries have showed willingness to go to the Chinese companies. The one has initiatively turned to the Chinese company to ask about the willingness for taking over. The other one had good impression about the Chinese company based on long business contact and were interesting of belonging to it.

9.1.3 Difficulties of investing in Germany

Here, I will discuss the difficulties which they have by internationalizing in Germany according the information from the case studies. The difficulties which have been expressed by interviewees could be categorized to *internal* and *environmental* groups.

The *internal* difficulty is the emotional anxieties of employees of losing work. It happens often in the two German subsidiaries which have been purchased by the Chinese companies. In these cases, this worry about unemployment on the employees’ side might be caused by three factors:

- Negative impression of Chinese companies. This negative impression may derive from three factors. Firstly, objectively, the Chinese company

has generally a negative image in Germany because of its bad quality of products, low credibility, etc. With this image it is too hard for German employees to accept emotionally Chinese companies as their parent company at once though their new bosses are or belong to large scale SC and has already good image in China. Secondly, the lack of understanding of Chinese companies caused mistrust of employees against the new boss. They misunderstood the new parent companies as a technology hunter without interest in developing the German subsidiary in the long term. Thirdly, there is also prejudice among the German employees against Chinese companies.

- The restless situation in German subsidiaries before the acquisition. In both purchased German companies the situation was instable before the acquisition. The one already tried to change the owner two times. In another instance, the employees had experienced work place reduction because of the internal production transfer to China before some years. Lastly more than half of employees in the German subsidiary have been dismissed from their jobs. Against this background it is too hard for German employees to be worry-free about an owner change.
- The necessary time period for building trust of German employees in Chinese parent company. The anxiety among the German employees might not be caused entirely, just partly, by the new 'Chinese' boss himself. It is a "human nature" for many people to take time to trust in a "stranger". For a German—a relatively conservative nationality—the acceptance of a "newcomer" may take a longer time. For instance, CS3-WC1 has expressed that they often suffered from the change of their chief manager because they need much time to interact with the new chief to build the trust. The Chinese company may have more patience by waiting for and giving more effort—developing the subsidiary continuously—to 'win' the trust from them.

The *environmental* difficulties come from *institutions* and *press*. The *institutional* restrictions revealed in the CS2 and CS3. We can see that banks and tax offices hold an abnormal position against the Chinese subsidiaries. The bank no longer gives credit to the German subsidiary in the CS3. The tax officers control the German subsidiary in the CS2 with more regularity than usual. The reason for this reaction is the mistrust in their Chinese parent companies.

Another source causing difficulty is the environment of the German *press*. The negative public opinion about China increased the resistance for Chinese companies to invest in Germany. For instance, according to a statistic in 2008, most reports in the German press about China were negative³³. This causes extra pressure for Chinese companies, especially those who acquired German companies. By some interviews with the managers one can perceive their carefulness for preventing their information from misuse. For example, an interviewee, who has an open-minded character, has taken much care with the information, as to which extent he should and could give it out. Recording the interview was refused. The Interview had to be approved by the management of the Chinese HQ at first even if he belonged also to the management. The main reason for explaining this behavior is overwhelming negative reports about China in the German press at that time.

9.2 Interaction between Chinese company and German subsidiary

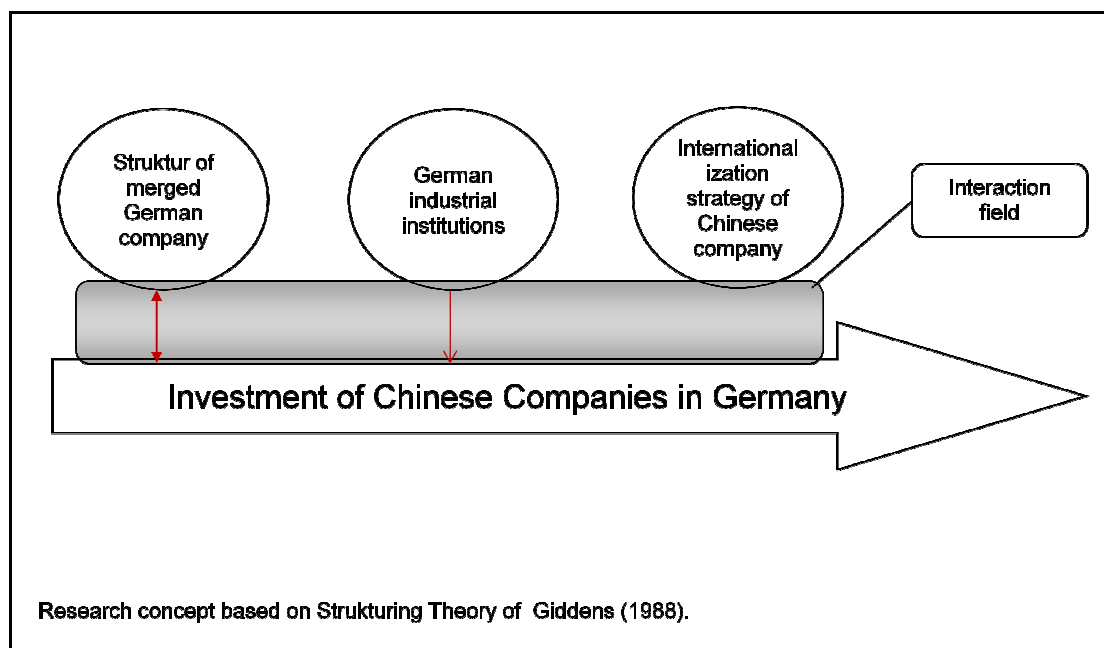
In the beginning of this paper I have portrayed the research concept based on the structuring theory of Giddens (s. Figure 2). This concept interests in how the Chinese company in Germany as “stranger” gets along with the German industrial society as “existing structure”—with the German management, the German employees and the German industrial institutions. Furthermore, also an interesting point of the research is the interactions between them and the effects resulting from the interactions. Besides, the Chinese parent company can be also deemed as the “existing structure” to its new established German subsidiary. The interaction could also take place between them.

In the study the hard clash between them has not been seen because all Chinese parent companies took a conservative strategy to control over the German subsidiaries. They hold back from the daily operation and grant full operational autonomy to the management. Nevertheless, the mutual influence is still taking place softly and quietly. In the empirical study, some interaction between the Chinese parent companies and their German subsidiaries through merger & acquisition or new firm establishment could be found out. These interaction effects the change of both management and the mindset of employees. As demonstrated in Figure 14, I have marked the interactions revealed in the study with red arrows. Unlike the bilateral influence between a

³³ Cf. the study of Heinrich-Böll-Stiftung in 2008. China's Berichterstattung in den deutschen Medien. http://www.boell.de/downloads/Endf_Studie_China-Berichterstattung%281%29.pdf .

merged or newly founded German company and the Chinese parent company, the German industrial institutions affects only unilaterally on the development of the Chinese companies here.

Figure 14: Chinese companies in Germany and interactions with German industrial society—research results



9.2.1 Practices of Chinese company in German industrial society

Carefully perceiving of the emotional situation in merged German subsidiary

Although this is not material but psychological, a properly careful emotional situation is one of the preconditions for a Chinese company to avoid many mistakes by acquiring a German subsidiary. In the CS1, the managers of the parent company showed their emotional carefulness at high extent by their taking over the German subsidiary. They devoted time in understanding German management, lots of communication with them, learning the German environment for investment, caring for the emotional restlessness of the German employees, etc. Before making a decision referring to the German subsidiary, there might be much discussion among the management. These efforts helped the firm's performance after the acquisition.

Moreover, the open-mind attitude facilitated the smooth communication between Chinese and German management. In both merged German companies the management encountered rare problems by the communication with the managers of their parent companies. The main reason they have talked

about by the interview is the open mind and direct expression of the Chinese managers. It is quite difficult to conclude that the mindset of these Chinese managers has been westernized to an “open” person also when they are in China. Or, their character has not been “changed” to be “open”, just are originally “open” before because in some regions in China the Chinese conduct quite frankly. But, at least, it can be seen that the long business contact toward offshore or with foreign companies in China has influenced the adjustability of the Chinese managers. In the CS1, the Chinese ‘coordinator’ has long experience with foreign culture through business trip in South Korea, performing joint venture project with foreign companies in China. In the CS3, the Chinese parent company has long history by doing international business. Before it took over the German subsidiary, it has invested in many countries through different entry models. In the CS2, there is not much information about the international experience of the Chinese managers. The interviewee has spoken of the Chinese workers who have been sent to Germany for coordinating with the German co-workers. Their experience in another culture before has helped them to adapt to the German society.

Strategic control

In all three cases, the parent companies use a similar structure to control the German subsidiaries regardless the entry models of merger & acquisition or “green field”. According to Child, Faulkner and Pitkethly (2001, p. 91), this control model should be counted as “strategic control”³⁴, with the word of CS3-GM — let the German manager “swim in the pool”. They grant the German subsidiary whole autonomy over day by day operative issues and focus on defining the framework of the arena where the German subsidiary is allowed to play. The framework is made up primarily of two things: the annual business plan and the budget which they decide on together with German management; restricting the authority of financial affairs for German managers with an upper limit. Usually, the Chinese managements decided a limit to grant financial authority to German managers with a clear range. The expens-

³⁴ As Child etc. (2001) explain, the “strategic control” relates to large long-term issues of concern to senior management, such as final approval for the subsidiary’s budget, capital expenditure, appointment/termination of senior personnel, acquisition/divestment, formation of alliances, decisions about major contractual agreements, changes in the scope/direction of the company, and the introduction of major new products. The other type of control model is “operative control” which relates more to day-to-day issues of greater immediate concern to management in the subsidiary.

es under this limit could be decided on by the German managers themselves, otherwise they must ask for the approval from the parent company.

The parent companies are the “rule-makers”, playing the role of “referee” and overseeing the situation of the German subsidiary to prevent their “fouls”. In the study, there are three ways for the Chinese parent companies to oversee the German subsidiary.

- The first one is the financial reporting which has been handed over monthly, quarterly and annually.
- The second one is the information flow. During the day by day business operations there takes place frequent communication through telephone, emails, meetings, etc. The communication could directly flow to the management of the parent company or via specially appointed representatives, such as the “supervisory board” in the CS3.
- The third way which looks more expensive than the former two is sending a coordinator to the German subsidiary. This method has been used in the CS1. The appointed Chinese manager in the German management is not only responsible for business coordination but also overseeing the operative situation here.

Up to this point, this control strategy runs well without serious problems in these companies. There might be two reasons for this.

- The existing or willingness of creating a trust based relationship. In the CS1 a good relationship was established during the long business contact, lasting more than 20 years. The parent company in the CS2 nominated the son of the German manager as the leader for the German subsidiary. Then both sides showed their willingness in caring for the relationship to continue by fixing the base of trust. In the CS3, the relationship between the subsidiary and parent company cannot be assessed. But in the interview, the German manager has also talked about his effort to create “trust” with the Chinese management.
- The transparent and professional management in German subsidiaries. Generally, the management in German company is more professional and transparent than in China. This feature makes it easy for the Chinese management to obtain real information about the business situation of the subsidiary.

“Respecting” German co-determination politics

Generally, the Chinese management accepted the work council as a legitimated institution in Germany and holds back from the co-determination politics in the German subsidiary. In the new found German subsidiary in the CS2, there are no signs that the Chinese managers cared about or intervened in the intra-company co-determinations. In two merged companies, the co-determination politics has been already institutionalized—in an existing work council. After the takeover, the Chinese management of both companies shows no interest in getting involved in this area. They also have not done anything to change the old orientation model of the co-determination.

Their first official time to contact with—also till now the last one — the work council took place during the takeover phase. In order to calm the emotions of the German employees who were anxious, both managements have held meetings with the employees and promised that they will continue to develop the subsidiary. In the CS1, the Chinese managers have promised that they will leave the company in “silence”—with whole autonomy. In their contacts, the Chinese managers perceived the interest environment in the subsidiary as really *pragmatic* even if they have used the Chinese metaphor “fish and water” to describe the tight relation between employees and employer. One point of the metaphor is that the company needs the employees with learned technique and mechanical experience. The other point is that the “water” must be there at first. They perceived practically that “saving the work place” is the foremost “interest” of the employees. Although the promise of continuous development in Germany has not made the employees at ease, they spent time on business development and enlarged the scope of the subsidiary with new recruitment of personnel. After then, the worry about the joblessness among the employees disappeared.

Technology “cooperation” instead of technology “transfer”

The key factor causing the anxiety of the German subsidiary, maybe the German society, is the technology “transfer”. This “transfer” means “copy the core competence” or “purchase a company and transfer all equipment to China then close it up”. The former leads to the loss of competitive capability of the company, maybe even the industry. The latter causes unemployment. By the “green field” model of the CS2”, there is no problem with the “technology”. In other two cases, both Chinese managements have undertaken a long term

oriented cooperation strategy of technology and avoided the affect of the anxiety. They haven't copied the core competence of the German subsidiary, but drawn upon it to level up their own products. It leads to a "double-win" situation in the end.

9.2.2 Effects of interaction

As an interviewee said, "Inter-culture depicts itself naturally very differently. When people work long with others closely together, they grow closer. It will not be seen that one subjects himself to another, but people approach, his language, his attitude, his interaction with others". We have seen that the Chinese parent companies hold really back from direct intervention into the operative issues of their German subsidiaries. They haven't also changed the organizational structure in the German subsidiary after the takeover. This hasn't led to a direct cultural "clash". During the interaction, maybe because of the soft approach of the Chinese management, also because of the "open mind" of the German management, there has not yet been a conflict between them. But when looking into the interaction between Chinese management and German management, also between the workers, cultural influences occur on both sides due to their working together. When investigating the extent to which one culture influences another one in the study, it could be found out that some have already led to a consequence, some have not had a practical result, even if only as a psychological effect. The empirical result reveals the inter-influence in two fields—management technique and work mindset.

In addition, the difficulty of analyzing mutual effects in this area is due to the lack of interviews with Chinese management and Chinese workers. In three studies I have only interviewed one Chinese manager. Therefore, the interpretation about this field is based mainly on the information from the German interviewees. For the influence on management there is still no statement from the Chinese manager to be drawn upon as evidence. To analyze the impact on the mindset of the Chinese workers who have been sent to the German subsidiary, I can only draw conclusions through the narration of the German interviewees through their investigations and experiences during their coordination with their Chinese co-workers.

Influence on management

In this field the influences take place in some aspects by the both sides. On the Chinese side, with their intense for learning the German professional

managerial technique, the Chinese managers consider themselves as “learners” of the German management. The Chinese managers in CS1 have tried to transfer professional German management technique to China through observation on the spot by the ‘coordinator’. In the interview, the Chinese manager has not talked about in detail the contents of that which they learned from here.

“We come here as a ‘student’. ... I stay here, when I saw something is good, I transfer it to China” (CS1-CM1).

This “learning” could not be strategically planned, but only work through a “learning” desire and “absorbing” ability. They keep investigating the advantages of the German management system and learn to integrate it into their own system in China to better it.

Moreover, through the close coordination between both managements the German management has inspired the Chinese partners to be more active and quickly improve their managerial qualifications and capability. In the CS1, as a SC, the decision-making process in the parent company usually lasts a long time. To match the management style of its German subsidiary, they have showed their ability to change their decision making mode and improve their speed of decisions about issues concerning the German subsidiary.

On the other hand, the German management has also been influenced by the cultural differences, especially in the *management style*. In the CS2, the German manager revealed his praise of the quick decision making model of the parent company and applied it to the German subsidiary. He mentioned that in spite of the structure organized with a rigorous hierarchy in the parent company the power for the decision making is centralized in the management. This model leads to very quick decision. Even if the mistake can happen quite easily from this model, it is assessed with high efficiency and to be introduced by the German manager.

In the CS3, the interviewee has not talked about the influence from the Chinese parent company on them. He has discussed the experience with the Chinese management of his Chinese subsidiary. From the coordination with them he has learned about the Chinese culture and tried to adjust to it. He began to regard ‘punctual’ not as important by meeting with Chinese managers. To improving the qualification of decision making with Chinese managers, he planned to regularize the process in details in written form.

In brief, in these case studies, both Chinese and German managements have worked with their partners without trying to dominate. They have not ignored the cultural orientation of their new partners or completely pressed. Also the passive handling of cultural differences could not have been expected. They have showed their rational recognition and respect of cultural divergence. When dealing with conflict, they took a relatively positive attitude without ignoring it, but only to look for a solution. They also tried to adjust to the new 'thing' and showed understanding to each other. In a few issues the two sides seem to approach each other. Up to this point, as a very beginning, it looks like a hybridized culture budding in management.

Impact on the work mindset

In every case study, there were some Chinese workers have been sent to the German subsidiaries to be trained by or coordinate with their German colleagues. This business trip lasting several months in Germany meant a window for them to know about the German work culture. This experience broadened their views and impacted their mindset for work.

The one impact derived from the self-discipline of German workers. Generally, according to the research of Trompenaars, a Chinese worker works with less self-discipline and needs more external control to ensure the performance than a German. In the German subsidiary, the loose work climate and high self-discipline have impacted the Chinese workers. They wondered about working without oversight. The other fact which startled Chinese workers is the effectiveness of the German subsidiary. In the CS3, the Chinese workers who were trained in Germany have been impressed by the productivity with high-end machines.

“They are amazed. People can work with just a few such people. It must not always be 100 to 200 people, but it could also be less. The employees (in China) are much more numerous because they are less productive. I need fewer people in Germany than in China for the same (task)” (CS3-GM).

Now, it is impossible to conclude that these psychological impacts could lead in reality to changing the work attitude in the Chinese companies. They might be already passed away without any affect or come to a result after long time through plenty of interaction between two groups.

9.3 Successful factors of Chinese companies residing in Germany—is there an ideal model for Chinese companies to operate German subsidiaries?

One goal of this paper is to suggest an “ideal” model for the Chinese companies who has been entered or is entering into the German market to take over or establish productive subsidiaries. Of this model some factors which have affected the performance of the Chinese companies’ internationalization in German will be examined based on the studies. These factors may be the pre-conditions for the Chinese companies to internationalize in Germany successfully.

Obviously, it is too early to develop a model which is applicable to the Chinese companies who plan to internationalize or have resided in Germany. The one reason for it is lack of evaluation of these factors by enough empirical studies. This paper has only investigated three subjects. It is not sufficient to conclude a generally applicable model. The other reason is the particularity of every company. When looking into the three companies, we could find out that they have different history and context, for example two SC and one PC. They didn’t have the same opportunity to entry into Germany, and also their historical contact with subsidiaries is different. Every company faced a particular challenge. Therefore, the successful factors which have been gleaned from these three studies could not be simply generalized as criteria for all Chinese companies, just be used to sketch a model, without enough scientific evaluation, but with *advisability*. To keep the *advisability*, I will ignore the factors which are particular for the companies, but discuss whose which are generally suitable to other companies.

“Our case is a successful one now for lots of people to research on. But every company has its particular situation. It could not be simply copied” (CS1-CM1).

The successful factors could be classified into two categories: pre-residence and post-residence. The factors before residence in Germany refer to how the Chinese company decides the target to take over or how it establishes a subsidiary by itself. The latter group of factors suggests with which strategy the Chinese company controls its German subsidiary after the settlement.

In the following five factors depicted, the first two are pre-conditions for a successful residence. The last two refer to ways to continue to manage the subsidiary. The third point may cover the whole process and be important not only for entry phase but also for continuous development.

Pre-acknowledgement about the acquired company

Looking into the two merger & acquisition cases, the parent company of the CS1 had long business contact with the German subsidiary before takeover. This contact helped the Chinese management understand the situation of the German subsidiary well—not only the economic but also the cultural situation. This understanding reveals often during the interviews with the managers. With the help of the pre-acknowledgement the Chinese management could also coordinate carefully with the German management. In the CS3, two companies didn't have long history of business contact which obviously began since the residence of the German subsidiary in China about 2004. It is not clearly to be seen if the Chinese parent company has understood very well about the subsidiary. Possible, the large scale of the parent company is the main factor helping the integration of the German subsidiary into the total value chain.

Inter-supplementary

In each case, the parent company and its subsidiary are inter-supplemental in high degree, especially for the parent company. The technology knowhow of the German subsidiaries are supporting the raising up of the qualification of production technology of the parent companies, thereby they enlarge their market share in the low and middle end markets. The high-end segment is the target market for the German subsidiary. This inter-supplementary may be the basis for long term development of the German subsidiary.

Local management

Up until now, all subsidiaries have been managed by locals. This may be the most effective way to maintain well-run subsidiaries. They know the local culture and law-making. They understand the subsidiary well. They have already good managerial skills. Through takeover of management by the German company the parent company can save plenty of investment in training Chinese managers to learn German culture and avoid making big mistakes. As stated by the CS1-CM1, if the parent company wants to appoint Chinese managers to take over the management of the subsidiary, there are always two questions: if the Chinese manager knows German culture better than the local manager, and if the managerial skills of the Chinese are really better than German manager? Of course, these Chinese companies had the opportunity to recruit German managers. Even though, I would rather suggest that a

'local' management could be the first choice for the Chinese companies set up in Germany.

"Open mind" of both managements

The interviewed managers—either German or Chinese—look out on the world with openness. They have already international business experience and are thinking global. The German managers take a rational position to the Chinese company as a growing global player. The ideological thinking has no place among them. This way of thinking is a strong support for Chinese company to take over or establish a subsidiary in Germany. In the CS3, the German manager has already worked in management in several companies in America. This experience helps him to coordinate with the new Chinese shareholder with the role of 'professional manager', although the short contact with the Chinese parent company.

Strategic control system—"Swim in pool"

In three case studies we have seen that they all have built a strategic control as one interviewee said in the CS3—"swim in pool". This control structure runs well and certainly between the parent company and its subsidiary. Possible, it could become a generalized control mode for the Chinese companies which are internationalizing in Germany. In this model, the authority of the management of the German subsidiary must be clearly defined. The information flow in written form mainly through different reports should be regularized so that the parent company can keep overseeing the situation of the subsidiary. Certainly, regulations in written form are not sufficient for the Chinese companies to prevent the subsidiary from the misuse or misleading by the management through cheating and asymmetrical information. Thus, the other three dimensions could complement the model 'safely' for them:

- Trust based relationship. In these cases, two parent companies had already close relations with the German subsidiary—either personal or business. After the acquisition both sides tried to show their openness to each other to keep the relationship loaded with 'trust' so that the relationship stays stable. The German manager in the CS3 might have a not very close relationship with the parent company. But after the shareholder change, he has also made an effort to build up a trust based relationship with the parent company.

- German professional and transparent management system. This system made the Chinese management easy to obtain the information about the subsidiary.
- 'Simple' character of German managers and employees. Here I don't want to discuss about the 'humanness'. Certainly, if we talk about the 'humanness', there is no human who is not cunning or avaricious. Generally, Germans have relatively 'simple' and 'direct' characters. It is relatively easily for Chinese managers to obtain the necessary information from the German workers. This could also help the normally functioning of this control mode to a certain extent.

Rational attitude for co-determination politics

A smooth takeover also requires the rational understanding by the Chinese company about the industrial relations issues in Germany and their understanding of the interest articulation of the German employees. They should deal with the emotional restlessness of the German employees more carefully as a 'stranger' than local chief. Certainly, the best way to do away with the anxiety is the business performance. Furthermore, the Chinese company should know about the co-determination culture in the German company which they want to buy. A rational attitude to the existing work council and trade is a positive and helpful factor to get in the way of the takeover and the integration of the subsidiary into the parent company later.

This project could be considered as a preliminary study for the future research on the Chinese company in Germany. The investment of Chinese companies in Germany is accelerating. Some questions have not been answered in this paper. The 'ideal' model for a Chinese company to settle down in Germany with a productive subsidiary needs to be evaluated and developed. Currently, 'inter-culture' is still a hot topic for research and management education. But in this project, the intercultural differences have not played a significant role in spite of the large difference between Germany and China. Is 'inter-culture' the main issue for the internationalization of company everywhere? Or the difficulties caused by the cultural differences could be avoided in certain conditions? If yes, which conditions? Moreover, the influence between the Chinese companies and German structures should also be studied. These may be research subjects for the future.

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