**Addressing challenges on the ground.**

**Mechanisms and instruments of coping with distance:**

**a study of Chinese MNEs in Poland[[1]](#footnote-1)**

**Abstract**

**Purpose:** This paper identifies and analyses the instruments and mechanisms of coping with perceived (post-entry) challenges resulting from multidimensional differences i.e. cultural, administrative, geographic, and economic (psychic distance) applied by Chinese MNEs operating in Poland.

**Design/methodology/approach:** The research design is a multiple case study of five Chinese MNCs that entered Poland through different modes of FDI (acquisitions vs. greenfield) and that are characterized by different corporate international growth logic depicting the role of the host market (in our case Poland) in their overall strategy. It involves in depth, semi-structured interviews with top managers on subsidiary and HQ - level. An original typology was used to identify and analyse coping instruments and mechanisms.

**Findings:** We found that the studied companies used four types of mechanisms in coping with challenges coming from psychic distance: relational, resource-based, transactional and institutional.

**Originality/value:** This paper fills in the gap in the psychic distance literature by closely examining the ways in which Chinese MNEs ‘bridge’ the distance after entering the host country. It identifies instruments of coping with distance and the mechanisms that explain the logic of these instrument. It provides a typology of coping mechanisms.

**Keywords:** Chinese MNEs, Psychic distance, Coping mechanisms

**Paper type:** Research paper

**1. Introduction**

The paper is about management of distance by Chinese multinational enterprises (MNEs) investing in Poland. Distance, understood as differences between countries, and resulting from them challenges, is one of the key concepts in the field of international business studies. Some scholars argue, that management of distance is the essence of international management (Zaheer et al., 2012). Distance in international business can be conceptualised as objective differences between the two national settings, for example institutional distance (Kostova and Zaheer, 1999), or as a subjective perception of the differences by managers and decision makers referred to as psychic distance. First introduced by Beckermann (1956) and incorporated into Uppsala model of firm’s internationalisation (Johanson and Vahlne, 1977), psychic distance, defined originally as “a sum of factors preventing the flow of information from and to the market” (Johanson and Vahlne, 1977, p. 24) thus limiting managers’ ability to understand the foreign market and creating uncertainty, has been widely used in explaining the process of internationalisation of enterprises. The number of studies investigating the impact of psychic distance on firms’ internationalisation, such as destination choice, mode of entry, sequencing or level of involvement is ample[[2]](#footnote-2). At the same time there is a dearth of studies, with notable exceptions (Child et al., 2002; Child et al., 2009; Puthusserry et al., 2014) examining how exactly firms cope with the challenges created by psychic distance. Our study adds to this body of knowledge.

Chinese MNEs represent the fast-growing group of emerging market MNEs (EMNEs). Rapidly expanding literature on EMNEs claims that in their international expansion they undertake more radical moves than MNEs from developed countries to compensate for the late internationalization, and they often decide to undertake significant direct investments in the foreign country through acquisitions (Luo and Tung, 2007, Luo and Zhang, 2016). Some scholars argue, that Chinese companies internationalize to explore and compensate for competitive disadvantages rather than exploit competitive advantages (Child and Rodriguez, 2005), and treat their foreign investments as a way of augmenting assets, building capabilities and gaining legitimacy in order to increase the overall global and domestic competitiveness. This approach is conceptualised as springboard internationalisation (Luo and Tung, 2007, 2018). The radical character of internationalisation of Chinese MNEs implies a different approach to psychic distance, than proposed by Uppsala model. Indeed, some recent evidence suggests that psychic distance has a different effect on EMNEs than on developed market MNEs. For example the study of Chikouni et al. (2017) shows that EMNEs tend to acquire higher ownership when internationalizing to countries with large psychic distance, while DMNEs acquire less ownership, while the research by Drogendjik and Martín Martín (2015) indicates the difference between EMNEs and DMNEs in the impact of particular dimensions of psychic distance on the international investment decisions.

In the springboard perspective on internationalization *coping with psychic distance* can be conceptualized as a way of learning and building capabilities and resources. This is consistent with the view on distance proposed by positive organisational scholarship approach which, while recognizing the difficulties that distance brings to the process of internationalization, focuses on examining the opportunities for learning, innovation, creation and arbitrage coming from the existence of differences (Zaheer et al., 2012; Stahl and Tung, 2015, Stahl et al., 2016). Therefore, we argue, understanding how Chinese MNEs perceive and address the challenges generated by psychic distance in their foreign operations can be the first step in understanding how they develop resources and capabilities in ‘springboard’ internationalisation, which, according to Luo and Tung (2007, 2018) is still underexplored.

Many of prior works investigate the issue of EMFs internationalization into developed markets. While Poland is recently classified as advanced emerging it still represents a post-transition economy. The evolution of the Polish economy context makes interesting to investigate the instruments, understood as actions that Chinese companies take in coping with challenges resulting from perceived differences (psychic distance) and mechanisms – the logic that underlies these actions. Thus, we are addressing the following questions:

***How do managers in Chinese MNEs operating in Poland perceive the key challenges resulting from cultural, administrative, geographic and economic differences and how do they address these challenges?***

Chinese companies are often treated as one, homogenous cohort, particularly in Poland. In this study, we contextualize our research by exploring whether the perceived challenges and responses to cope with them depend upon initial choices concerning entry mode decisions (acquisitions vs. greenfield) or the corporate international growth logic depicting the role of the particular host market (in our case Poland) in overall Chinese MNEs’ strategy.

To answer the question, we conducted a qualitative study of five Chinese MNEs with FDIs in Poland. We interviewed top managers in the subsidiaries and supplemented our findings with secondary data from organizational documents, publications and observations. Our findings allowed us to identify a range of instruments applied by Chinese MNEs in coping with the challenges. By applying original typology, we were able to identify the mechanisms that the instruments are based on. Our findings also suggest an existence of positive approach to distance and using distance in assets and capability building in the process of internationalisation. The paper is structured as follows: section 2 outlines the framework for analysing challenges related to psychic distance, the modes of coping distance and proposes the typology of mechanisms of responding to challenges distance-related challenges; section 3 describes the methodology of the study; section 4 presents the study findings; section 5 discusses the findings and draws conclusions.

**2. Theoretical background:**

**Psychic distance - challenges, responses and coping mechanisms**

In international business studies the concept of distance has been predominantly applied to highlight challenges that business entities face on the way of their foreign expansion, both in macro and micro level studies. For instance, macro-level gravity models of foreign trade adopt geographic distance to explain the trade between two countries (Tinbergen 1962; Hakanson 2014), while the micro-level studies of firms’ international behaviour look at multidimensional differences between home and host country that hamper firms' actions in foreign markets. Within the process perspective of firms' internationalisation, rooted in behavioural theory, the Uppsala stage model popularised the concept of psychic distance (PD) (Johanson and Vahlne 1977; Smith et al. 2011). Over the 40 years of research employing PD to investigate among others its role in the choice of markets, entry modes, or effects for performance in foreign markets, its definition as well as operationalization substantially evolved. It’s beyond the scope of the paper to discuss all nuances, but in our definition of PD we follow two arguments. First of all, the psychic distance concerns differences (and difficulties arising from them) between the domestic market and the foreign market, which are *perceived* by decision makers and interpreted in their minds (Evans and Mavondo 2002; Hakanson and Ambos 2010; Child et al. 2009; Obadia 2013). It means that the operationalization of the psychic distance using "objective" indicators, such as the level of GDP per capita is not justified. Secondly, the measurement should take into account several dimensions, i.e. not only the cultural but also the business dimension (which takes into account administrative, geographic, economic and technological aspects) (Dow 2000, Hakanson and Ambos 2010; Zaheer et al. 2012; Child et al. 2009; Dow and Karunaratna 2006; Dow and Larimo 2011; Evans and Mavondo 2002; Sousa and Bradley 2006). The definition adopted in this work, as well as the operationalization of the psychic distance are both based on earlier works emphasizing the “psychic" component of distance and its multidimensionality. In other words: the psychic distance refers to the differences perceived by managers between the domestic market and the foreign market (in the cultural and the business dimension, including administrative, geographic, economic and technological aspects) and the resulting difficulties in operating on the foreign market. Because this study concentrates on identifying and exploring, rather than measuring, the challenges created by psychic distance, we adopted a multidimensional definition of psychic distance, including four broad dimensions in which differences and challenges manifest: cultural, administrative/institutional, geographic and economic/technological (Ghemawat 2001).

Distance creates challenges and uncertainties. Some scholars argue that managing distance adds the international dimension to the process of management (Zaheer et al., 2012). Following this argument, to ‘manage’ the distance means to effectively address these challenges. Some studies to date brought an insight into our understanding of how MNEs cope with the difficulties coming from psychic distance. The study of firms originating from Hong Kong with subsidiaries in Anglo-Saxon countries by Child et al. (2002) identified a set of *distance-bridging factors* – conditionalities which helped to reduce the negative impact of distance on company’s performance, and which were under company’s control[[3]](#footnote-3). They concerned both strategic level (choosing the investment destination and mode of entry), and operational level (managing operations on foreign market). Subsequent studies of Finnish firms in Japan (Ojala, 2008) and Chinese firms in Germany (Vaccarini et al., 2019) confirmed the positive role of manager’s international experience to cope with distance. And the study of Finnish firms in China identified an importance of cultural and social sensitivity (Salmi, 2006) in coping with challenges related to distance. Kontinen and Ojala (2010) in their examination of Finnish firms in France identified an additional range of distance-bridging factors: recruitment of culturally and linguistically competent employees, building network of professional relationship with local entrepreneurs and agents, learning local language and culture and introducing home-country culture, carefully choosing the mode of entry and building mutual trust. Child et al. (2009) in their study of British firms exporting to Brazil, found out that *bridging* was not the only way they coped with the challenges created by distance. Some companies approached the challenges by *avoiding* them through lowering transaction costs through transferring them to the local partner. Other companies simply *did not cope* with the challenges and negative effects of the psychic distance. The subsequent study of coping with distance, this time on British firms in India (Puthusserry et al. 2014) identified four modes of coping: *absorption mode* – learning of the foreign market, often through network of relationships, *contingent mode* – relying on partners in coping with emerging problems, *pragmatic mode* – ad hoc adjustments, and a passive, *non-coping mode*.

In coping with psychic distance companies undertake a range of activities, which can be conceptualise as *instruments*, that – in turn - can be organised into higher-order categories, which we refer to as *mechanisms*. Mechanisms reflect the logic of application of particular instruments. The research by Ciszewska-Mlinarič (2019) on internationalisation of Polish companies identified four main mechanisms of coping with psychic distance: relational, resource-based, transactional and institutional (Figure 1).

**Figure 1.** Types of mechanisms to cope with psychic distance



Source: Ciszewska-Mlinarič (2019, p. 273)

*Relational mechanisms* are based on company’s ability to develop and manage the network of relationship with partners on foreign markets; to build cooperation based on mutual trust, exchange of experiences and joint problem solving (Ciszewska-Mlinarič 2019). Network of relationship allows the company to acquire knowledge about the specifics of foreign market which, in turn, permit to identify opportunities and avoid threats related to differences. This category of coping mechanisms is theoretically linked to relational view as ability to manage the network of inter-organisational connections (Dyer and Singh, 1998). Lorenzoni and Lipparani (1999) define relational capability as firm’s ability to cooperate with other actors in a way that gives access to external knowledge and facilitates knowledge transfer. For managers it means building trust and protecting themselves from the results of partner’s opportunistic behaviours at the same time (Dyer and Nobeoka, 2000; Mesquita, 2007).

*Resource-based mechanisms* are related to firm’s ability to identify and fill the gaps in own resources and competencies through development of new competencies, acquiring resources and competencies from the partner, and the ability to leverage resources and competencies in their international strategy (Ciszewska-Mlinarič 2019). These mechanisms are grounded in resource-based view of the firm (Barney, 1991; Peteraf, 1993) and the theory of dynamic capabilities (Teece and Pisano, 1997). Resource-based mechanisms involve development and deployment of firm-specific resources and capabilities in human capital, knowledge, product and technology, to build competitive advantage on foreign markets (Hitt et al., 2006; Sirmon et al., 2007).

*Transactional mechanisms* are associated with firm’s ability to choose the optimal form of international operation to match the external (market) and internal (organisational) conditions and to reduce costs and risk related to internationalisation (Ciszewska-Mlinarič 2019). These mechanisms are founded on transaction cost theory, which explains the choices and behaviours of MNCs by their need to minimize costs related it internationalisation, such as searching for partners, negotiating agreements, and monitoring and control of foreign contracts (Williamson, 1975; Hennart, 1991).

*Institutional mechanisms* comprise activities aimed at building legitimacy on foreign markets and at obtaining institutional support for internationalisation. This category of mechanisms is based on two streams of literature (Ciszewska-Mlinarič 2019). First is the institutional literature, which postulates that in order to be able to function effectively on the market companies need to gain legitimacy for their forms, actions and products (DiMaggio and Powell, 1983; Scott, 1995). Suchman (1995) defines legitimacy as “a generalized perception or assumption that the action of an entity is desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions” (p. 574). Second stream of literature discusses the role of public institutions in the home country and their role in supporting internationalisation of firms (Fisher and Reuber, 2003; Ciszewska-Mlinarič, 2018). The growing presence of MNCs from emerging economies in the international business also drew attention to the role of national governments in promoting and actively backing up international activities of EMNCs (Child and Rodrigues, 2005; Morck et al., 2008; Peng, 2012; Quer et al., 2018).

**3. Methodology**

This study was aimed at exploring the instruments and mechanisms of coping with challenges resulting from cultural, administrative, geographic and economic differences - experienced by Chinese MNEs while operating in Poland. The multiple case study design chosen for this investigation allows for making observations across various organizational settings, and searching for cross-case patterns and themes to advance the development of propositions (Fletcher and Plakonnaiaki, 2011; Eisenhardt, 1989). We have focused on large (employing at least 8 000 people globally) and mature (the youngest company was founded in 1985) Chinese MNEs that have subsidiaries in Poland for at least 2 years (as of 2018), representing manufacturing industries, as well as the largest Chinese investments in Poland. Additionally, the selection of the specific cases was guided by two differentiating criteria **to examine whether and how initial choices concerning the investment mode (i.e. acquisition vs. greenfield) and corporate international growth logic characterizing Chines MNCs operating in Poland exert any effect on perceived (*post-entry*) challenges and developed mechanisms to cope with them** (Table 1). First criterion was the *mode of entry*: acquisition or greenfield. Based on prior research that indicate different benefits and challenges associated with these two investment modes we thought important to look at Chinese firms that decide for different investment modes, to control whether modes of entry affect perceived challenges. For instance, a post-acquisition integration of the target (acquired unit) into MNE’s value chain (or – more broadly – corporate model) could result on one hand in greater recognition of cultural differences and challenges, but on the other – lower the perceived administrative or economic differences.

**Table 1.** Case selection criteria

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **Entry mode** | |
|  |  | *Acquisition* | *Greenfield* |
| **Corporate international growth logic 🡪**  **the role of the host market** | *Host country (PL) as a primary (key) market in Europe* | LGD Machinery  EBI Environment | PGN Electric |
| *Host country (PL) as a secondary market in Europe* | Electronica | Telecom1 |

Source: Own elaboration

Second criterion was the *corporate international growth logic* depicting the role of the particular host market (in our case Poland) in overall EMNEs’ strategy, where Poland was seen *either* as a key (and often the very first) market in Europe i.e. primary market in a European region*, or* as a secondary European market. The former includes those Chinese MNCs, where HQ managers deliberately targeted Poland as a first step of their regional (i.e. European) expansion. The latter, embraces the companies for which entering Poland was simply a part of the larger-scale regional (European) strategy, that was first oriented on West-European more developed markets than Poland. In other words, they did not target Poland as a particular location for investment, but it was just one of countries in EU, which itself was the main goal. Table 2 presents the characteristic of case companies and company profiles are presented in App.1.

**Table 2.** Characteristic of case companies

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Company** | **Electronica** | **LGD Machinery** | **EBI Environment** | **Telecom1** | **PGN Electric** |
| *Respondents: Managers’ position and nationality* | * VP for international operations (CN) * Financial director for international operations (CN) * Subsidiary Deputy GM (PL) * Subsidiary HRM (PL) * Subsidiary FM (CN) | * Subsidiary MD (CN) * Subsidiary marketing manager (PL) | * CEO and subsidiary MD (CN) * Senior investment manager (CN) | * Subsidiary MD (CN) * Subsidiary GM consumer products (CN) * Regional HRM (CN) | * Subsidiary MD (CN) * Project manager (CN) |
| *Industry* | Consumer electronics | Heavy construction equipment | Environmental protection | Telecommunication | Power transmission and transformation equipment |
| *Founding year* | 1981 | 1958 | 1983 | 1985 | 1970 |
| *Firm age at Internationalization* | 16 | 42 | 28 | 13 | 29 |
| *Prior international experience (before entry to Poland)* | 7 | 12 | 5 | 10 | 15 |
| *Ownership type* | PLC with state ownership | PLC with state ownership | SOE | PLC with state ownership | SOE |
| *Firm size (FTE)* | 75000 | 8000 | 8800 | 74700 | 9989 |
| *Global sales turnover* | US$ 5.2 billion | US$ 1 billion | US$ 2.56 billion | US$ 16.1 billion | US$ 2.94 billion |
| *Year of entry to Poland*  *(years in Poland, as of 2018)* | 2004  (14) | 2012  (6) | 2016  (2) | 2008  (10) | 2014  (4) |
| *Mode of entry* | Acquisition | Acquisition | Acquisition | Greenfield | Greenfield |

Note: CN – Chinese, PL – Polish, VP – vice president, GM – general manager, HRM – human resource manager, FM – finance manager, MD – managing director, FTE – full time employment, SOE – state owned enterprise. Source: Own elaboration

In this paper we anonymized the company’s names. Data collection was based on secondary (corporate reports, websites, media releases) and primary sources (face-to-face, semi-structured interviews with company managers and key decision makers). Multiple methods of data collection provide triangulation of data (Yin, 2003). Where it was possible to-date we interviewed both Chinese and Polish respondents to make sure that we have a two-way perspective on the studied phenomenon. In each company we conducted at least two interviews, lasting between 60-120 min. The interviews were organized on-site, which gave us an opportunity to conduct observation. For the interviews we used a general protocol, which enabled data coding and cross-case analysis. However, respondents were encouraged to elaborate on the issues that they considered important. Whenever it was possible all researchers were present during the interviews. Because we did not get a permission for voice recording of the interviews, we needed to rely on shorthand notes. Each researcher transcribed own notes, and they were later compared and compiled to prepare a full interview transcript, which was used for preparing a database for each case. Most interviews were conducted in English, but some were conducted in the native language of the respondent (Chinese or Polish), and then translated to English by the researcher conducting the interview to make sure that the meaning of the data was not lost in translation (Chidlow et al., 2014). For each case study a database was created and qualitative content analysis was performed to identify the challenges and instruments of coping (Krippendorf, 2004, Welch et al., 2011). Finally, the cross-case analysis was conducted to find similarities and differences between cases.

**4. Research findings: challenges and responses**

*4.1 Cultural dimension of perceived distance*

**The challenges**. Cultural differences between Poland and China were identified by all respondents as a main challenge in doing business. The first difficulty emerged from the *language barrier*. In all studied companies English was adopted as official language of communication, however while most top managers both Chinese and Polish spoke English fluently enough to communicate, at the level of middle management and below the communication between Chinese expatriates and local managers and workers was difficult. The linguistic barrier in communication was recognized as particularly frustrating for managers in companies which were undergoing post-acquisition restructuring:

*When we took over the Polish plant none of Chinese managers (in the subsidiary) spoke Polish and most of them spoke poor English, so there was practically no communication”* (Electronica). “*Inside [acquired subsidiary] many employees don’t speak English, or don’t speak well enough, such as the [Polish] CEO of the subsidiary* (EBI Environment).

The language barrier also generated difficulties in communication with local customers, suppliers and government officials: “*language is an issue, as* *some of our sub-contractors and clients don’t speak English at all*” (PGN Electric). The second cultural challenge was related to *differences in communication style*. Chinese managers were accustomed to top-down, indirect communication, while the Polish nationals preferred to communicate directly and in a two-way manner. Such a difference led to misunderstandings and sometimes mistrust in relations with local staff, as illustrated by the Polish manager of Electronica:

*In China nobody tries to challenge the leader. As a manager I feel that if I am not openly challenged, something must be wrong: people either don’t care, or don’t know or, which is worst, they are hiding something*.

The difference in communication also provided a challenge in communication with customers:

*In order to understand customer’s needs the Chinese staff listen without disturbing, to show humility to the client. The Polish staff would be asking challenging questions to better understand the needs of the client. I think Polish customers are used to this* (Telecom1).

The differences in *preferences in communication channels* also created problems. In Poland the preferred channel of distant communication is phone or e-mail, which for most of interviewed management using instant communication was perceived as an obstacle in daily communication. One Chinese manager explained it as follows:

*In China instant communication is a norm, we use Wechat, while in Poland it is e-mail, which makes it less efficient. It takes longer to replay to e-mail.*”(EBI Environment)

Additional set of challenges was identified as coming from the *differences in values and attitudes to business* *and work*. Most Chinese managers, especially those, without international experience found it difficult to deal with the fact that the arguments for intensifying efforts for the better collective future didn’t work for Polish employees:

*Our Polish staff don’t want to do overtime job, they leave immediately when time-off arrives* (PGN Electric).

*In China it is possible to motivate people by explaining them future benefits of the company. It does not work in Poland* (Electronica).

*Managers and staff from China and Asia are hard working. Self-consciously do overtime work if the task not completed. Polish managers are leaving on time after work even the task not completed. I felt surprised initially (…) when I was working in the office waiting for the submission of the task, but found that the local manager had already left* (EBI Environment)*.*

Managers also pointed to difficulties arising from the approach to business. The ‘Polish way’ of doing business was characterized by direct approach to problem solving, with efforts targeted at key elements of the business and clear division of responsibility, while the ‘Chinese way’ was described as more indirect, with greater attention to detail and avoiding individual responsibility. This often led to conflict between Chinese expatriates and local managers. The final cultural challenge came from the *image of the country of origin****,*** which was identified as an important challenge by the managers of companies which have been on the Polish market longer (Electronica, Telecom1 and LGD Machinery). The negative stereotype for Chinese products and services to be cheap and of mediocre quality was identified as a challenge in three cases. Even in the hi-tech industries, where Chinese companies begin to take the lead on global markets the ‘image challenge’ still existed:

*The greatest challenge is the perception of Chinese companies. We don’t have established reputation, so our potential clients are not sure whether we deliver quality solutions on time* (Telecom1).

**Responses to cultural challenges**. Several instruments used in responding to cultural challenges were based on relational mechanisms. First, all interviewed managers pointed to the importance of respecting the cultural differenceswhile controlling the subsidiary performance at the same time. Managers were aware of the cultural differences and all of them admitted that they attempted to build mutual respect for differences in the subsidiaries:

*We respect the rules and suggestions from local managers. If it is workable, and the results are good we keep the local solution* (Electronica).

*We listen to local people* (LGD Machinery).

Telecom1, LGD Machinery and EBI Environment used the *mixed teams* consisting of both Polish and Chinese staff members working together:

*The locals and expatriates learn from each other. They learn from practice what works and they explain to each other why they behave in particular way and what they mean by that. They train each other in mutual understanding* (Telecom1).

Some managers acknowledged, that the efficiency of this instrument depended on the length of stay of expatriates in Poland. Therefore in companies like Telecom1 the two Chinese members of top management stayed in Poland for 7 and 10 years. Building trust was achieved through demonstrating commitment to Polish operations and *creating a sense of inclusion* of Polish management and staff into the company. All companies organized *study visits* for best performing Polish staff in HQ in China and for Chinese staff in the Polish sites. According to the manager of LGD Machinery, this had a positive effect on mutual understanding and learning, and also enhancing of the company’s employer’s brand among the local staff. Relationship instruments were also used in overcoming cultural distance in external relations. All managers mentioned that one way of building the positive image of their companies and their products was to *build and maintain the network of personal relationships with local customers and suppliers*. This was of a crucial importance for the companies whose business model involved securing contracts with institutional clients:

*Lobbying and other pre-sales activities are important to get to know the customer, to find out about their needs and to build personal relationship* (Telecom1).

Resources and competencies that they possessed or acquired locally were also utilized in coping with cultural challenges on the ground. All companies pointed to the importance of the *experience and competencies of Chinese expatriate staff*, in particular those who occupied executive positions in dealing with cultural differences. Cultural sensitivity, English language proficiency and international experience was also one of key criteria of choosing the CEO for Polish operation. It was particularly important for companies that made an acquisition in Poland. The first CEO for Polish subsidiary of Electronica was a Chinese expatriate living in Belgium for 20 years, subsidiary CEO of LGD Machinery studied in England and had competencies in HR and engineering, and CEO of EBI Environment did his MBA in the US, worked abroad and was headhunted for this position by the HQ in Hong Kong. The CEOs of the greenfield subsidiaries did not have such an ample international experience, but both were proficient in English and had undergone intercultural training before being dispatched to Poland. In addition, all expatriate staff sent to Poland had undergone *cultural and language training* before being sent on Polish assignment. Language (English) and cultural training was also delivered in subsidiary for both Polish and Chinese staff. It is worth noting, that most of Chinese expatriates, especially on top managerial position took Polish classes, and although all of them admitted that they were not able to speak Polish, the ability to use basic Polish words in their everyday contacts with their colleagues and staff was appreciated. Another way of coping with cultural differences was *employing of competent local managers* and giving them substantial autonomy in managing local operations. This instrument was pointed to as critical in companies that entered Poland through acquisition and were undergoing post-acquisition restructuring. This is best illustrated by the quote from Chinese managing director of Electronica:

*Quick promotion of two young Polish managers to local executive position was one way of coping with communication problems. We gave them our support, but the fact they were local helped to build trust among local staff*.

On top of that most of the studied companies were *recruiting employees from Chinese diaspora* in Poland. This instrument was based on both resource-building and transactional mechanisms, and it was particularly important for subsidiaries located in parts of Poland in a distance from large cities, where challenges related to language and cultural differences were the most significant:

*We use translators to communicate. We have several translators already, but we are looking for tri-lingual talent* (EBI Environment).

The instruments applied by companies in coping with challenges related to the poor image of the country of origin were focused on *building legitimacy* of the products and the company. One of the responses involved *using double brands* in selling products in Polish and European markets. This mechanism was employed by LGD Machinery and EBI Environment, that sold some products under the acquired brand, which was recognized on the market. Telecomm1 took advantage of the brand of the client (one of the largest Polish telecommunication operator) to sell its consumer products. Another way of building legitimacy was creating an *‘European image’* in relationship with customers and suppliers. All companies had an *important part of operations located in Warsaw* (in the case of Electronica it was R&D center, in the remaining case – corporate offices), even if the production facilities were located in different parts of Poland. The managers acknowledged, that an important reason for this was to have the sales, marketing and technical hubs in the large capital city in Europe, to accentuate their European image:

*Our machines are made in Europe, tested in Europe and served in Europe”* (LGD Machinery).

*We located the office in Warsaw to facilitate development in surrounding European countries (…) and to attract talent* (EBI Environment).

The companies, which did not have production facilities in Poland, such as PGN Electric, *employed local sub-contractors* and local suppliers to emphasize localization of their services:

*The integration with local suppliers and sub-contractor are welcomed by local government and companies, because it is helpful for local employment and economy development.*

*4.2 Administrative dimension of perceived distance*

**The challenges.** All respondents mentioned Polish labor law and employment relations as a problem. Work and employment regulations in Poland, being aligned with EU labor law, protect the employee. Labor market institutions such as minimal wage, regulations related to working hours, employment contract or mobility were perceived as an obstacle to some companies in controlling costs of production (Electronica, LGD Machinery), achieving flexibility of working hours (PGE Electric; LGD Machinery), internal mobility (Telecom1) and addressing the seasonality of production (Electronica):

*The problem is that the minimum wage increases each year by about 10% and for us labor makes the biggest part of the costs* (Electronica).

*Overtime work is a legal issue* (LGD Machinery).

*For Chinese employees moving into another position in a company when it is necessary is not a problem. In Poland it is a challenge to transfer people between businesses* (Telecom1).

*The biggest challenge was to establish a legal employment contract for existing employees in the plant* (financial manager of Electronica in the context of addressing production seasonality).

*Trade unions* were present only in one company – LGD Machinery, and they provided a very significant challenge for the Chinese management, especially the fact that managers had to deal with more than one union:

*In China we have only one trade union of company’s employees. In Poland trade unions are external to the company and all they seem to be interested in is to increase salary of the staff* (subsidiary MD, LGD Machinery).

Another set of challenges was related to the legal regulations, especially the *public procurement law*. Four out of five studied companies provided services to institutional customers, and as such they were subject to the public law. The managers described the law as ‘*extremely complicated*’ due to the attention to many details, which, if not fulfilled may disqualify a company from the public tender:

*It is important to have all these documents in order. Otherwise we don’t have a chance* (Telecom1).

The companies, which did not locate production in Poland or which were using components from China in their production mentioned high *taxes and tariffs* as a problem, although managers also acknowledged that the tariffs and taxes in Poland are lower than in other EU countries, which if fact was one of the reasons for their decision of location. The next challenge was related to *quality certificates and norms*, that had to be obtained for the company’s products. Companies, to whom Poland was their first investment in Europe mentioned their lack of familiarity with the Polish and EU norms was a hurdle:

*The environment protection is big in Europe, and we need to find the right entrance. To build our brand will take a long time, and we are not familiar with EU regulations* (EBI Environment).

The final set of challenges was brought up by managers in state-owned companies, but also mentioned by managers of publicly listed companies, and concerned *a difference in the role of the state government* in the country’s economy. Companies which developed in the economy with a significant government involvement and coordination had to overcome the difficulty in operating in the economy which is liberal. First challenge was related to the need of dealing with several stakeholders. This concern was best expressed by the CEOs of EBI Environment and PGN Electric:

*In China, many projects are initiated by the government or government could have significant influence on the decision making. The target is more concentrated. Thus, we could put effort on communicating with government and work with the government. While in Poland, the government either doesn’t own the project, or doesn’t have significant influence on the decision making. We have to look for clients and discuss with clients, besides the government* (EBI Environment).

*In order to execute the engineering project, need to apply the usage right of land from Polish government and also discuss with some resident if it is private land* (PGN Electric).

The second challenge involved taking responsibility by company’s mistakes. This was articulated by the financial director of Electronica:

*In China company’s mistakes are covered by Government, in Poland (as in other European countries) companies are responsible for own mistakes.*

**Responses to administrative challenges.** Two of the studied companies have begunto address the administrative differences before setting up subsidiaries in Poland building on relations with partners. LGD Machinery built the relationship with the local distributor that was later acquired based on mutual trust, experience, complementarity of resources and common goals.. Telecomm 1 followed its French customer who acquired the largest Polish telecommunication operator in the process of privatization. The gradual involvement in doing business in Poland allowed the companies to get information about the administrative constraints and opportunities. Networking with other Chinese MNEs in Poland was an additional instrument used to acquire knowledge about administrative conditions in Poland and learning how to cope with them. Chinese Embassy in Poland played key role in providing networking opportunities. Some companies (PGN Electric, EBI Environment) used the Chinese Embassy as an agent in negotiation with the Polish government or with potential customers thus lowering the transactioncost of acting in an unfamiliar institutional environment. Another form of addressing the administrative challenges was the use of consulting and legal services before and after establishing a subsidiary in Poland. Managers of all companies admitted that their companies have been employing consultants from global consultancies to address the daily administrative issues. Some companies hired local lawyers to design flexible employment contracts (Electronica) and prepare documents for public tenders (Telecom1). Importing components from China and assembling products (value chain adjustments) in Poland was the way to avoid high duties and taxes. For Electronica it was the reason to keep the Polish factory:

*The reason for producing in Poland is that as a part of EU duty on TV sets does not have to be paid. The duty on TV set in EU is 14%, while the duty on components is either 0% on panels or 2-3% on some other components* (Electronica).

*Compliance with Polish and EU law and standards* was admitted by all managers to be the institutional instrument of utmost importance. All companies adjusted their procedures and products to meet the required standards. Managers of PGN Electric, EBI Environment and LGD Machinery acknowledged that this adjustments constituted a part of a broader strategy of European expansion, and they treated their *adaptation to Polish quality standards* as making the first step to break the protectionism in Western European markets. CEO of PGN Electric’s subsidiary expressed it as follows:

*Poland was a member of the former Soviet Bloc before joining the EU. The qualification requirement is different, comparing to Western countries, for example Germany. Although EU standards are required for both Poland and Germany, Polish client requests lower qualification for the past business references than German. PGN Electric didn’t have European references before, therefore we can’t meet the requirements of German clients, but we can meet the requirements of Polish clients and get the European references.*

The adaptation process was facilitated to a great extent by the *employment of* *Polish managers who already had knowledge and competencies* in complying with local regulations. The CEO of EBI Environment admitted that local competency in obtaining European quality certificates was one of the key resources acquired in the Polish plant. Telecom1 and PGE Electric *developed competencies in winning public tenders*. For example, during the six years of their presence in Poland PGE Electric has won six public tenders for building power grid infrastructure, secured contracts until 2022 and become the most successful Chinese bidder in Central and Eastern Europe. One of the managers noted:

*The power grid projects in Poland all go through public bidding, so to investigate and master the bidding procedure is a precondition for success*.

*4.3 Geographic dimension of perceived distance*

**The challenges.**A long geographic distance between China and Poland entailed two sets of challenges identified by four out of five interviewed managers. First set was related to *transport and logistics*. These challenges were particularly acute for Electronica, who was importing components from China to assemble the final products in Poland. Due to the seasonal character of production, *timing and viability of supplies* was of a crucial importance. Until 2016 company used sea transport to lower the cost, however the lack of reliability of this mean of transport was a problem in production planning and stock management:

*Shipping causes problems with timing and accuracy. It is hard to predict the actual timing for delivery as anything can happen on the way, including piracy, so planning is really possible only when the delivery arrives, which does not allow for flexibility (Electronica).*

Other companies also reported problems related to a *high costs of transport* of products (Telecom1), components (LGD Machinery) and equipment (EBI Environment). The second set of challenges concerned *coordination of operations*. All studied subsidiaries were integrated into global operations, reported directly to HQ in China and directly controlled through the presence of *expatriates*. Managers reported that sending expatriates to Poland created some challenges for the company, for example in expatriates’ commitment:

*The Chinese expatriates treat this subsidiary to certain extent as an exile, because they are not visible in the company, and they see their career in China, not internationally* (Electronica).

This sense of ‘exile’ was further exacerbated with the fact that most of expatriates were away from their families. Companies were also concerned with the costs related to sending Chinese staff members to Poland.

*Company has family transfer support policy, but few employees delegated to foreign subsidiaries ask their family to join, mostly due to the issues of partner’s job (Electronica, Finance Director HQ).*

*Dispatching Chinese staff to Poland cost additional, with travel costs, allowances, accommodations etc (PGE Electric).*

Because of tight control of subsidiary operations, direct *communication with HQ* was an important yet challenging issue due to the *time difference* between the two countries:

*We need to manage the time difference between Poland and China. We have to work longer than local staff* (EBI Environment).

Two state owned companies (EBI Environment and PGN Electric) reported an additional challenge related to the need of communicating with the appropriate ministry in China:

*We get guidance and information from the Ministry of Commerce. We also need the Ministry to get necessary documents, such as Letter of Guarantee* (PGE Electric).

**Responding to geographical challenges.** The companies used a range of instruments to cope with geographical distance. Companies which have production facilities in Poland (Electronica, LGD Machinery and EBI Environment) acquired and *developed their own transport and logistical capacity*, to optimize cost and viability. The optimization of transport was largely facilitated by building an intercontinental railway connection between China and Poland in the framework of the *Belt and Road initiative*. For example it allowed Electronica to switch from sea transport to railway transport which helped to improve production, stock planning and increase productivity:

*The opening of the train connection between Chengdu to Łódź in 2016 opened a possibility for railway transport. Now 95% of components are transported by train, which is faster and more efficient. It allows for minimizing storage costs. As a result the efficiency of the plant has improved by roughly around 15 – 20%* (Electronica).

Another way to cut the costs of transport was to *use local or European suppliers*:

*Some key components we purchase from suppliers in UK and Germany. Some parts are supplied from Poland locally. While, the capability of supply in Poland is still not so strong. Around 80% of the total quantity are purchased in Poland, 20% of the total quantity are purchased from other countries. The value is inverse, around 80% from other countries* (LGD Machinery).

*In order to overcome the institutional resistances, some of the equipment and spare parts we use local suppliers, this solution also save the logistic cost if transport from China* (PGE Electric).

In addressing the problems related to communication and coordination, companies aimed at *optimizing the numbers of expatriates* in the subsidiary, by staffing only the position that required close cooperation with HQ. At the end of 2018 in Electronica only 4 positions were permanently staffed with expatriates, in LGD Machinery and EBI Environment – 7 positions, in PGE Electrical – 12 positions and in Telecom1 – 20 positions. The two latter companies temporarily increased or decreased the number of expatriates following the demands of the projects. Companies also utilized the *latest communication technology (videoconferencing)* in communication with HQ to reduce costs of travelling. Companies with a larger global presence (Telecom1, Electronica ) organized regional meetings as a form of communication and coordination of global operations:

*All subsidiary managers have regular regional meetings. There is an annual congress in Barcelona, where Telecom1 brings all the customers and subsidiary management together.*

The *Chinese Embassy also served as communication and coordination hub*. It was particularly important for the state-owned companies, as some of the ministerial administrative responsibilities were delegated to the Embassy:

*We get the information and guidance from the Commercial Department of Chinese Embassy in Poland. [the Commercial Department] also gives the necessary Letters of Guarantee fast* (PGE Electric).

*4.4 Economic dimension of perceived distance*

**The challenges.** The last set of challenges concerned economic differences. One challenge was presented by the preferences of Polish consumers. According to interviewed managers the market for consumer goods was characterised by *higher price sensitivity* and at the same time *higher demands for quality* and *brand sensitivity* than the Chinese market, and other markets served by the studied companies:

*Polish market is very brand-oriented. On one hand customers want ‘big brands’ and on the other they don’t want to pay much, so there is a conflict in customer’s demands. (…) Poland is not the most lucrative market, because of the low margins. Margins are lower than in the former Yugoslavian countries, so the revenue is lower too”* (Telecom1).

The price sensitivity and demand for quality was also reported for the market of investment goods: “*Some developing countries experiences can’t be used in Poland and European countries. For example, in Africa, the clients are more concern with keeping the cost down, but in Poland, price competiveness is an important element, but more they are more concern of quality* (PGE Electric).

In term of markets for means of production, all managers reported the *cost and availability of labor* as a most significant challenge. All interviewed managers acknowledged, that while the cost of labor in Poland was lower than in other EU countries, which in many cases was one of the reason for choosing Poland as the location for subsidiary, it was considerably higher than in China. For companies with production facilities in Poland, where labor constituted an important part of total production cost, this was one of key problems to be addressed. Another one was to *attract and retain local talent*:

*The key challenge is to attract, develop and retain talents who can lead international operations, as well as some technical expertise. Such as the MBT business, we lack of this type of expertise in our headquarter, to retain the local expertise is important* (EBI Environment).

*Even with relatively high salaries (compare to China) it is hard to employ local people* (Electronica)*.*

**Responding to economic challenges**. All managers acknowledged that their companies did not want to compromise the quality to keep the prices down. This was most strikingly expressed by the subsidiary CEO of PGE Electric, whose company was facing a difficult task of restoring the image of Chinese construction companies after a Chinese construction company famously failed to fulfil the contract on building a motorway:

*Compromise in quality to put the cost down is not acceptable. Such as the COVEC failure in Poland, it was an experimentalism mistake.*

To keep up with customers’ demand firms *developed their product related competencies* by upgrading product and service quality. For example Electronica, who in addition to producing devices under own brand also served as OEM for other brands concentrated on minimizing the percentage of defects. For EBI Environment an acquisition of the Polish company was broadening the product and service portfolio. Telecom1 concentrated on building close relationships with the customers in order to deliver tailor-made products.

*Electronica competes with service: lower defect; lower rework rate. IT department is responsible for quality control (*Electronica).

*[An acquired subsidiary] boasts a sophisticated waste collection, storage and transportation system, which is on the upstream of the value chain, and EBI Environment owns technologies in the downstream, which complement with each other* (EBI Environment)*.*

We compete on building relationships with customers: *We sell the custom-made platform. All other products are* *co-developed with other elements of individual platform and it always require individual adaptation (*Telecom1)*.*

Another set of competencies that companies concentrated on were related to *optimization of production*. Restructuring and cost optimization through increasing efficiency was of the greatest importance to Electronica and LGD Machinery, who acquired Polish subsidiaries which were overstaffed and used obsolete technology. LGD Machinery reduced the number of staff from 1760 to 1000 and introduced some work automation, Electronica downsized the middle management from 150 to 75, introduced new production layout and simplified jobs, to be able to staff the shop floor positions more easily. *Outsourcing workforce* was an instrument that helped Electronica to optimize production, which included keeping up with seasonality:

*70% of the employees are outsourced. We only have one line that is staffed with full-time employees. Lots of our employees are migrants from Ukraine and Belarus (they are employed by employment agencies). We are local largest employer in the area and have no problems finding people*(Electronica).

*Location of production where labour was cheaper and available* was an important criterion for choosing acquisition targets for all companies that decided to have production site in Poland:

*Historically, the [acquired] plant is the biggest plant in the city. The labor are available there and the labor cost is comparatively low (LGD Machinery).*

*We retained the main office in Mława, the cost of labor and manufacturing is comparatively low there* (EBI Environment).

While the production companies concentrated on labor cost reduction, the two companies that worked on projects *offered higher salaries to acquire local skills and talent*:

*We hire experienced employees. We pay more than the industry average and we also offer bonuses as a part of our performance management system* (Telecom1).

Some managers, especially of state owned companies, admitted that they *secured financial resources* to be able to cope with the difficulties and successfully carry out operations on the Polish market:

*As a big state-owned company, we have our advantages in resources, finance and technology accumulations, comparing with small private companies. (…) Company also prepare some back-up fund, in order to deal with some unknown risks which may be not foreseen* (PGE Electric).

We have good credibility and strong financial capacities (EBI Environment).

All major challenges and responses adopted by examined Chinese MNCs operating in Poland are summarized in Table 3, where we have also categorized specific responses (instruments) into higher-order categories of coping mechanisms.

**Table 3.** Perceived challenges and responses by Chinese MNCs in Poland

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | Electronica | LGD Machinery | EBI Environment | Telecom1 | PGN Electric |
|  | **Cultural** |  |  |  |  |  |
| KEY CHELLENGES | *Language barrier* | x | *x* | *x* | *x* | *x* |
| *Differences in communication style* | x | *x* | *x* | *x* | *x* |
| *Preferences in communication channels* | x | *x* |  | *x* | *x* |
| *Differences in values and attitudes to business* *and work* | x | *x* | *x* | *x* | *x* |
| *Image of the country of origin* | x | *x* |  | *x* | *x* |
| RESPONSES | *Respecting the cultural differences [REL]* | x | *x* | *x* | *x* | *x* |
| *Mixed teams [REL]* | x | *x* | *x* | *x* | *x* |
| Long-term assignments of Chinese managers in Poland [REL] |  | *x* |  | *x* | *x* |
| *Creating a sense of inclusion [RES]* | x | *x* | *x* | *x* | *x* |
| *Study visits 🡪* mutual understanding and learning, and also enhancing of the company’s employer’s brand [INST] | x | *x* | *x* | *x* | *x* |
| *Build and maintain the network of personal relationships with local customers and suppliers [REL]* |  | *x* | *x* | *x* | *x* |
| *Experience and competencies of Chinese expatriate staff (*Cultural sensitivity, English language proficiency and international experience*) [RES]* | x | *x* | *x* | *x* | *x* |
| *Cultural and language training for expatriates [RES]* | x | *x* | *x* | *x* | *x* |
| *Employing of competent local managers [RES]* | x | *x* | *x* | *x* | *x* |
| *Recruiting employees from Chinese diaspora [RES]* |  |  | *x* | *x* | *x* |
| *Building legitimacy [INST]*   * *using double brands [INST]* * *European image’ - important part of operations located in Warsaw [INST]* | x | *x*  *x* | *x*  *x* |  | *x* |
| *Employed local sub-contractors [INST]* |  | *x* |  |  | *x* |
|  | **Administrative** |  |  |  |  |  |
| KEY CHELLENGES | *Labor law and employment relations* | x | *x* | *x* | *x* | *x* |
| *Trade unions* | x | *x* | *x* |  |  |
| *Public procurement law* |  | *x* | *x* | *x* | *x* |
| *Taxes and tariffs* | x | *x* | *x* | *x* | *x* |
| *Quality certificates and norms* | x | *x* | *x* | *x* | *x* |
| *Difference in the role of the state government* | x | *x* | *x* |  | *x* |
| RESPONSES | Development model <--Acquisition of a local distributor, based on experience, complementarity of resources and common goals [REL] |  | *x* | *x* |  |  |
| *Networking with other Chinese MNEs* in Poland *[REL]* | x | *x* | *x* | *x* | *x* |
| *Chinese Embassy as an agent [REL]* |  | *x* | *x* |  | *x* |
| *Use of consulting and legal services [TRANS]* | x | *x* | *x* | *x* | *X* |
| *VC adjustments: Importing components from China and assembling Products [TRANS]* | x | *x* |  |  | *x* |
| *Compliance with Polish and EU law and standards [INST]* | x | x | x | x | x |
| *Adaptation to Polish quality standards (🡨employment of* *Polish managers who already had knowledge and competencies) [RES]* | x | x | x |  |  |
| *Competencies in winning public tenders [RES]* |  | x | x | x | x |
|  | **Geographic** |  |  |  |  |  |
| KEY CHELLENGES | *Transport and logistics* |  |  |  |  |  |
| * *timing and viability of supplies* | x | *x* | *x* | *x* | *x* |
| * *high costs of transport* | x | *x* | *x* | *x* | *x* |
| * *coordination of operations* | x | *x* | *x* | *x* | *x* |
| Expatriates’ commitment | x | *x* | *x* | *x* | *x* |
| *Communication with HQ* challenging issue due to the *time difference* | x | *x* | *x* | *x* | *x* |
| RESPONSES | *Development of own transport and logistical capacity [RES]* | x |  | *x* |  |  |
| U*se of local or European suppliers [TRANS]* | x | *x* | *x* | *x* | *x* |
| *Optimizing the numbers of expatriates (🡪* staffing only the position that required close cooperation with HQ) *[TRANS]* | x | *x* | *x* | *x* | *x* |
| *Latest communication technology (videoconferencing)* *[TRANS]* | x | *x* | *x* | *x* | *x* |
| *Chinese Embassy serves as communication and coordination hub* [REL] | x | *x* | *x* | *x* | *x* |
|  | **Economic** |  |  |  |  |  |
| KEY CHELLENGES | *Higher price sensitivity* | x |  |  | *x* |  |
| *Higher demands for quality* and *brand sensitivity* | x | *x* | *x* | *x* | *x* |
| *Cost and availability of labor* | x | *x* | *x* |  |  |
| *Attract and retain local talent* | x | *x* | *x* | *x* | *x* |
| RSPONSES | *Development of product related competencies* by upgrading product and service quality [RES] | x | *x* | *x* | *x* | *x* |
| *Optimization of production: [TRANS]* |  |  |  |  |  |
| * Restructuring and cost optimization through increasing efficiency *[TRANS]* | x | *x* | *x* |  |  |
| * *Outsourcing workforce [TRANS]* | x |  |  | *x* | *x* |
| * *Location of production site where labour was cheaper and available [TRANS]* | x | *x* | *x* |  |  |
| *Offering higher salaries to acquire local skills and talent [RES]* |  | x | x | x |  |
| Secured financial resources [RES] |  |  | x |  | x |

Note: Responses were categorized into mechanisms, i.e. [REL] – relational, [RES] – resources-based, [INST] – institutional, [TRANS] - transactional

**5. Discussion and conclusions**

Some interesting conclusions can be drawn from our research. Firstly, regardless of specific FDI entry mode, corporate growth logic, time of entry, or prior international experience, the key challenges resulting from cultural, administrative, geographic, and economic differences were perceived as similar. There are, however, few differences in the way the studied companies addressed these challenges. Thus, secondly, we observed an influence of the context on the choice of instruments and the mechanisms of coping with challenges perceived by managers. The adopted framework of case selection included the mode of entry as potentially important factor to exert an impact on the perceived challenges and implemented responses. Indeed some differences were observed in subsidiaries established as greenfield and those established by acquisition. For instance, the presence of trade unions was identified as challenge only in the acquired subsidiaries, and in all cases the trade unions were present in subsidiaries before acquisition happened. Nonetheless, acquisition mode also allowed the companies to obtain some resources, such as knowledgeable local managers, existing distribution network or transport facilities, that were later used to address the distance-related challenges.

Also the corporate international growth logic depicting the role of the host market (in our case Poland) in the overall strategy of Chinese MNCs (i.e. Poland seen as primary or secondary European market) has some explanatory power concerning the adoption and development of institutional mechanisms of coping with the challenges. These mechanism turned out to be more important for Chinese MNEs which treated their Polish subsidiary as a first step to a wider European expansion, than to those, which have been already present in Europe for some time. This was particularly evident in the companies applying instruments directed at addressing the challenges related to the image of country of origin, and building ‘European image’ of the subsidiary to get approval of customers, regulators and general public. The evidence also shows, that these companies intended to ‘leverage’ the legitimacy acquired by Polish subsidiary in their further expansion to other European countries. This finding draws attention to the significance of the relationship between the broader context of internationalization strategy and institutional mechanisms of coping with distance in a host country by Chinese MNCs. As a latecomers in internationalization they are not familiar with the ‘rules of the game’ in developed economies therefore they have low external legitimacy (Peng, 2012), therefore they need to take actions in order to gain legitimacy in host countries (Zhang et al.,2016). Our findings suggest that studied Chinese MNCs concentrated their main effort to build legitimacy in their ‘vanguard’ subsidiaries, to facilitate coping with psychic distance in their subsequent expansion.

Notwithstanding the differences discussed above, the studied companies mostly applied similar instruments and mechanisms of coping with psychic distance. Our research findings reveal that cultural challenges specifically required development of relational, resource-based, and institutional mechanisms; administrative challenges – relational, and then resource and transactional mechanisms; geographic challenges were addressed predominantly by the use of transactional mechanisms; and economic challenges – by transactional and resource-based mechanism. A careful interpretation of this finding may lead to a claim that such similarities among Chinese MNCs operating in Poland can be explained by the use of vicarious experience: learning from experiences of other Chinese companies operating Poland, and thus sharing common characteristics and being well networked in the host country (Jiang et al., 2014, Jiménez and de la Fuente, 2016). This is well illustrated by the instrument of using the Chinese embassy as a communication and coordination hub in response to the challenges. Undoubtedly, it provided Chinese companies in Poland with the opportunity for networking and sharing best practices, thus facilitating the dissemination of effective instruments of coping with perceived distance.

We also recognize that our study suffers from limitations. First, and most obvious, comes from the chosen research method, which allowed us to identify and explore the instruments and mechanisms of coping with psychic distance, does not allow us to generalize our finding to all Chinese MNCs. Also the restriction of the studied companies to manufacturing sector, and placing the research in one host country restricts the generalization of our findings. Second, the impact of the host country on the challenges and instruments of coping has not been analysed. The specific characteristics of Poland as a location of subsidiary can possibly have an impact on the perception of challenges created by distance. This issue is worth exploring further, especially in the light of the found impact of the logic of choosing Poland as a first market in the planned European expansion on mechanisms of coping with challenges.

**Appendix 1. Company profiles**

**Case-1: Electronica** is headquartered in Shenzhen city, Guangdong province and established its investment in Europe in 2003 through a merger and acquisition including acquired the European company’s headquartered in France, with several subsidiaries in Europe, including the plant in Poland. At of today, the function of the plant in Poland includes research and development, manufacturing and supply chain management, supplying products to all European markets besides Poland itself (though, initially, the Chinese investors were analysing the possibility of divestment of the Polish subsidiary). The core business of the company is television manufacturing and sales. Key technology, relevant brand, access to local distribution channel, market size, and comparatively low labour cost are the key determinants for the company to enter Poland. The company also benefits from the reach of acquired companies’ distributor network in other European countries. The deputy general manager is Polish, who is the actual top executive in the plant. He worked in the company since before the acquisition and familiar with the environment in the host country.

**Case-2: LGD Machinery** is headquartered in Liuzhou city, Guangxi province and established its investment in Podkarpackie province in southwestern Poland in early 2012 through a 100 percent acquisition. It is a leading construction equipment manufacturer offering a full line of extreme duty, intuitive machines for construction equipment. Key technology, relevant brand, access to the local market are the key determinants for the company to enter Poland. The company also benefits from the reach of acquired companies’ distributor and dealer network which help it continue to penetrate important markets, such as Europe, CIS region, and North America. The general manager didn’t work in the host country in the past, but he was one of the key member for the acquisition deal, and he has study experience in UK.

**Case-3: EBI Environment** is headquartered in Hong Kong and established its investment in Poland through a 100 percent acquisition. The company operates in the environmental production industry, holds six business segments, namely envirotech, environmental energy, environmental water, greentech, equipment manufacturing and international business. The acquired company owns six technologically-advanced integrated waste treatment plants located across four provinces in Poland, headquarter in the city of Mława. The acquisition was approximately EUR 123 million. It is the largest Chinese investment to date in Poland and the largest acquisition in the environmental protection industry in Central and Eastern Europe. The main drivers for choosing Poland were key technologies, relevant brand, access to the local market, and home government incentive policy. The company prefers to invest in country with mature regulation, after investing in Singapore, Germany and Poland are the investment destination. The general manager, although didn’t work in Poland in the past, has rich international work and investment experience, such as USA, and studied in USA in the past.

**Case-4: Telecom 1** is headquartered in Shenzhen city, Guangdong province and established its wholly owned subsidiary in Warsaw, Poland since 2005. The international expansion of the company to Europe began in 2000, and Poland belongs to a second group of countries to enter. It is a leading company in telecommunication industry. The company’s core business includes telecommunication service equipment and mobile devices. The main customers are the telecom service providers. Initially, the company entered Poland through the client connection in France who bought a Polish company in a process of privatisation. To access to the local market, and comparatively low labour cost are the key determinants to enter Poland. The establishment mode, greenfield, was driven by market needs and corporation’s global penetrating strategy. The general manager (he is also the managing director of equipment business) is Chinese, working in Poland since 2008. The managing director the mobile device is Chinese as well, working in Poland since 2011. Both of them didn’t work in Poland before they came, but worked long time in Polish subsidiary and got promotion from normal manager to top executives.

**Case-5: PGN Electric** is an enterprise directly under the State Grid Corporation of China, located in ‘Ping Ding Shan’ city, Henan province, and established its wholly owned subsidiary in Warsaw, Poland in 2013. The company's business scope covers transmission and distribution equipment research and development, design, manufacture, sales, testing, complete sets of related equipment, services and project contracting. The company chose Poland in order to have access to the local market and use Poland as a platform to further expand to EU market, niche product, and the presence of local business partner. The establishment mode, greenfield, was driven by bidding projects. The company is one of the most successful Chinese tender bidders in CEE. The general manager did not have any previous work experience in the host country and did not study or invest abroad.

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   This is a working paper, please do not quote without authors’ permission. [↑](#footnote-ref-1)
2. The study of literature on psychic distance by Ciszewska-Mlinarič (2019) identified that 54 out 134 reviewed journal articles focused on the relationship between psychic distance and the process of internationalization. [↑](#footnote-ref-2)
3. The other two groups of factor: distance creating factors and distance compressing factors, are out of firm’s control. [↑](#footnote-ref-3)