



KOZMINSKI UNIVERSITY

*Symposium on Economic Research of Central and Eastern Europe
CEIBS, Shanghai, 1 November 2019*

**Addressing challenges on the ground.
Mechanisms and instruments of coping with distance:
a study of Chinese MNEs in Poland**

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Research rationale and wider context

- Better understanding of globalization of Chinese MNEs (CMNCs)
- Role of Poland (and CEE post-transition economies) in globalization of Chinese MNEs
 - *Growing presence of Chinese MNCs in Poland*
 - *Ultimate targets in Europe: Germany, France, UK*
 - *OBOR, 16 + 1 agreement*
- Despite burgeoning literature on CMNCs relatively little is known about the role of CEE subsidiaries in overall global strategy

Research questions for the project

- Inductive, exploratory research aimed at answering broad questions (and generate theoretical propositions for further testing)
 - What are internationalization strategies of Chinese MNEs in Poland (in terms of entry modes, adaptation level, assigned subsidiary roles)?
 - What factors shape the strategies of CMNEs in Poland (company-specific factors and environmental factors) ?
 - What are the challenges and opportunities Polish environment presents to CMNEs?
 - How CMNEs respond to environmental pressures? Whether and how they use Polish context for building global capabilities?

Research question: focus

- What are the challenges that Polish environment presents for Chinese MNCs and how they cope with the challenges?

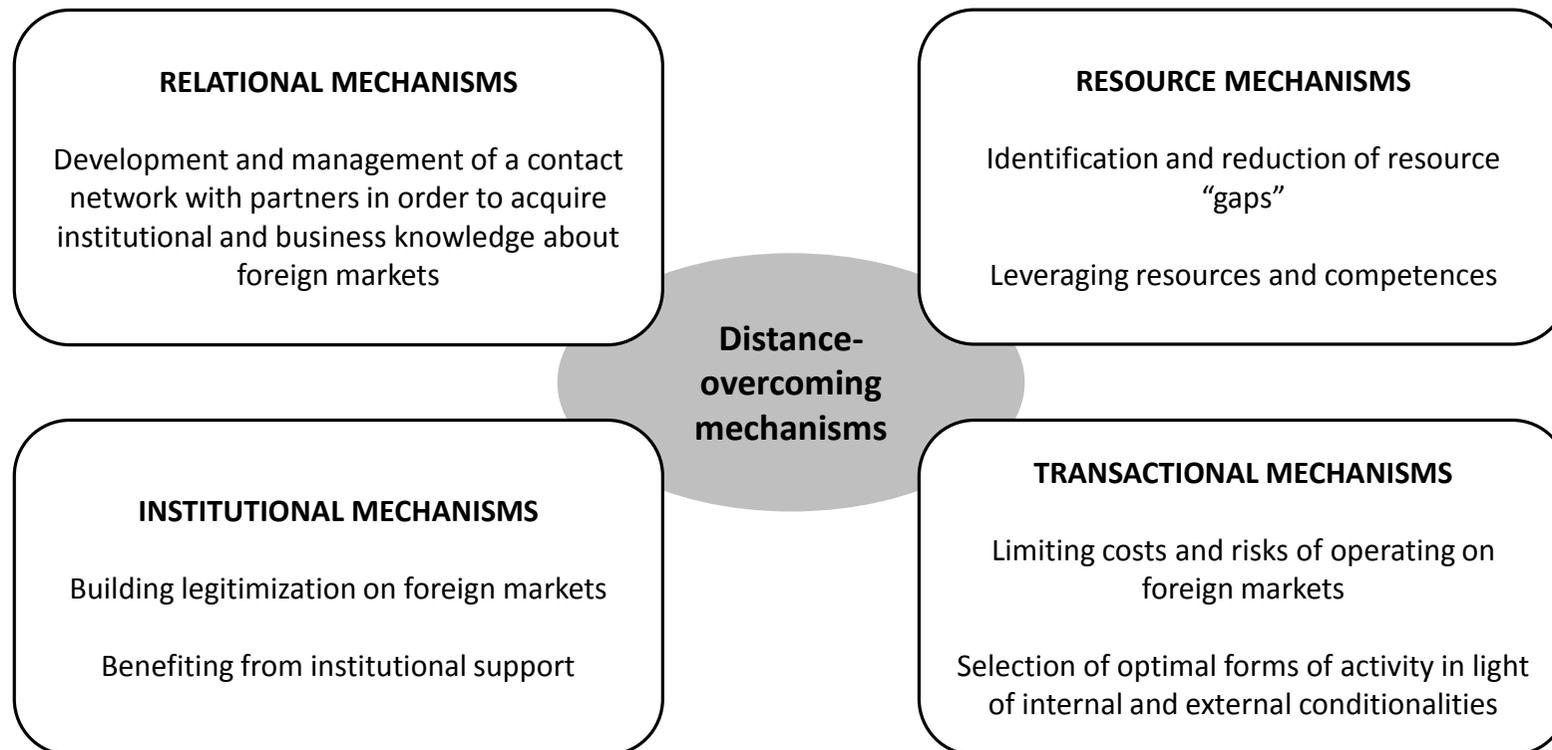
Theoretical argument

- “Springboard” internationalization of Chinese MNEs (*Luo and Tung, 2008, 2018*)
 - CMNEs treat their foreign investments as a way of augmenting assets, building capabilities and compensate for competitive disadvantages
- Positive view on distance (*Zaheer et.al, 2012; Stahl and Tung, 2015*)
 - Existence of differences (challenges) create opportunities for learning, innovation, creation and arbitrage

Theoretical argument cont.

- Understanding how CMNCs perceive and address challenges created by distance is the first step in understanding how they develop capabilities in internationalization
- Psychic distance as a ‘starting point’ for building capabilities
 - Perceived by decision makers (*Evans and Mavondo, 2002; Hakanson and Ambos, 2010*)
 - Multidimensional: cultural, administrative, geographic, economic (*Dow, 2000; Child et al.2009; Sousa and Bradley, Obadia, 2013*)

Mechanisms of coping with psychic distance



Methodology

- 5 Chinese MNCs: largest investment in PL, manufacturing
- Differentiation:
 - Entry mode (greenfield/acquisition)
 - Corporate international growth logic (primary (EE-WE)/ secondary (WE-EE))
- Interviewing top management: subsidiary / HQ (responsible for PL); Polish/Chinese
- In total 14 interviews – 60 to 120 minutes, EN/PL/CN (2-3 researchers present); on-site observation
- Secondary sources: corporate reports, website, media releases

Case companies

Company	Electronica	LGD Machinery	EBI Environment	Telecom1	PGN Electric
Respondents: Managers' position and nationality	<ul style="list-style-type: none"> • VP for international operations (CN) • Financial director for international operations (CN) • Subsidiary Deputy GM (PL) • Subsidiary HRM (PL) • Subsidiary FM (CN) 	<ul style="list-style-type: none"> • Subsidiary MD (CN) • Subsidiary marketing manager (PL) 	<ul style="list-style-type: none"> • CEO and subsidiary MD (CN) • Senior investment manager (CN) 	<ul style="list-style-type: none"> • Subsidiary MD (CN) • Subsidiary GM consumer products (CN) • Regional HRM (CN) 	<ul style="list-style-type: none"> • 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

Findings: cultural distance

CHALLENGES

- Language barrier
- Differences in communication style
- Preferences in communication channel
- Differences in values and attitudes to business and work
- Image of the country of origin

COPING MECHANISMS

Relational mechanisms:

- Respecting differences
- Mixed management teams
- Long-term expatriate assignments
- Creating sense of inclusion
- Network of personal relationships

Institutional mechanisms:

- Study visits – mutual learning and employer branding
- Legitimacy building – double brands
- Legitimacy building – European image
- Using local subcontractors
- Legitimacy building – similar past

Resource-based mechanisms:

- Experienced expatriate managers
- Language and cultural training for expatriates
- Competent local managers
- Recruiting employees from Chinese diaspora

Findings: cultural distance

		Electronica	LGD Machinery	EBI Environment	Telecom1	PGN Electric
KEY CHALLENGES	Cultural					
	<i>Language barrier</i>	x	x	x	x	x
	<i>Differences in communication style</i>	x	x	x	x	x
	<i>Preferences in communication channels</i>	x	x		x	x
	<i>Differences in values and attitudes to business and work</i>	x	x	x	x	x
	<i>Image of the country of origin</i>	x	x		x	x
RESPONSES	<i>Respecting the cultural differences [REL]</i>	x	x	x	x	x
	<i>Mixed teams [REL]</i>	x	x	x	x	x
	<i>Long-term assignments of Chinese managers in Poland [REL]</i>		x		x	x
	<i>Creating a sense of inclusion [RES]</i>	x	x	x	x	x
	<i>Study visits → mutual understanding and learning, and also enhancing of the company's employer's brand [INST]</i>	x	x	x	x	x
	<i>Build and maintain the network of personal relationships with local customers and suppliers [REL]</i>		x	x	x	x
	<i>Experience and competencies of Chinese expatriate staff (Cultural sensitivity, English language proficiency and international experience) [RES]</i>	x	x	x	x	x
	<i>Cultural and language training for expatriates [RES]</i>	x	x	x	x	x
	<i>Employing of competent local managers [RES]</i>	x	x	x	x	x
	<i>Recruiting employees from Chinese diaspora [RES]</i>			x	x	x
	<i>Building legitimacy [INST]</i>					
	<ul style="list-style-type: none"> • <i>using double brands [INST]</i> • <i>European image' - important part of operations located in Warsaw [INST]</i> 	x	x	x		x
<i>Employed local sub-contractors [INST]</i>		x			x	

Findings: administrative distance

CHALLENGES

- Labour law and employment relations
- Trade unions
- Public procurement law
- Taxes and tariffs
- Quality certificates and norms
- Difference in state government role

COPING MECHANISMS

Relational mechanisms:

- Acquisition of local firm with developed networks
- Networking with other Chinese MNCs
- Using Embassy as an agent

Institutional mechanisms:

- Compliance with PL and EU law and employment standards

Resource-based mechanisms:

- Using domestic and local resources (experienced managers) to adapt to standards
- Competencies in winning public tenders

Transactional mechanisms:

- Use of consulting and legal services
- Value Chain adjustment – importing components

Findings: administrative distance

		Electronica	LGD Machinery	EBI Environment	Telecom1	PGN Electric
KEY CHALLENGES	Administrative					
	<i>Labor law and employment relations</i>	x	x	x	x	x
	<i>Trade unions</i>	x	x	x		
	<i>Public procurement law</i>		x	x	x	x
	<i>Taxes and tariffs</i>	x	x	x	x	x
	<i>Quality certificates and norms</i>	x	x	x	x	x
	<i>Difference in the role of the state government</i>	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

Findings: geographic distance

CHALLENGES

- Transport and logistics
 - Timing
 - Cost
 - Coordination
- Expatriates' commitment
- Communication with HQ

COPING MECHANISMS

Relational mechanisms:

- Chinese Embassy as a communication and coordination hub

Transactional mechanisms:

- Use of local and European suppliers
- Optimizing the number of expatriates
- Using latest communication technology

Resource-based mechanisms:

- Development of transport and logistics capacity

Findings: geographic distance

		Electronica	LGD Machinery	EBI Environment	Telecom1	PGN Electric
KEY CHALLENGES	Geographic					
	<i>Transport and logistics</i>					
	→ <i>timing and viability of supplies</i>	x	x	x	x	x
	→ <i>high costs of transport</i>	x	x	x	x	x
	→ <i>coordination of operations</i>	x	x	x	x	x
	Expatriates' commitment	x	x	x	x	x
RESPONSES	<i>Communication with HQ challenging issue due to the time difference</i>	x	x	x	x	x
	<i>Development of own transport and logistical capacity [RES]</i>	x		x		
	<i>Use of local or European suppliers [TRANS]</i>	x	x	x	x	x
	<i>Optimizing the numbers of expatriates (→ staffing only the position that required close cooperation with HQ) [TRANS]</i>	x	x	x	x	x
	<i>Latest communication technology (videoconferencing) [TRANS]</i>	x	x	x	x	x
	<i>Chinese Embassy serves as communication and coordination hub [REL]</i>	x	x	x	x	x

Findings: economic distance

CHALLENGES

- Higher price sensitivity
- Demands for quality and brand sensitivity
- Cost and availability of labour
- Attraction and retention of talent

COPING MECHANISMS

Transactional mechanisms:

- Restructuring costs and optimization through increasing efficiency
- Outsourcing labour
- Location of production in areas where labour is less costly

Resource-based mechanisms:

- Development of product related competencies through upgrading quality
- Offering higher salaries to attract and retain local talent
- Secured financial resources

Findings: economic distance

		Electronica	LGD Machinery	EBI Environment	Telecom1	PGN Electric
KEY CHALLENGES	Economic					
	<i>Higher price sensitivity</i>	x			x	
	<i>Higher demands for quality and brand sensitivity</i>	x	x	x	x	x
	<i>Cost and availability of labor</i>	x	x	x		
	<i>Attract and retain local talent</i>	x	x	x	x	x
RESPONSES	<i>Development of product related competencies by upgrading product and service quality [RES]</i>	x	x	x	x	x
	<i>Optimization of production: [TRANS]</i>					
	→ <i>Restructuring and cost optimization through increasing efficiency [TRANS]</i>	x	x	x		
	→ <i>Outsourcing workforce [TRANS]</i>	x			x	x
	→ <i>Location of production site where labour was cheaper and available [TRANS]</i>	x	x	x		
	<i>Offering higher salaries to acquire local skills and talent [RES]</i>		x	x	x	
	<i>Secured financial resources [RES]</i>			x		x

Findings - summary

- Differences:
 - **Mode of entry:** challenges – trade unions; coping – resources and networks of relationships of acquired companies
 - **International growth logic:** institutional mechanisms – legitimacy building, using Chinese embassy as an agent
- Similarities
 - Most applied similar mechanisms and instruments in coping with psychic distance

Interpretations / early propositions

- International growth logic matters for CMNCs
 - Significant difference between the WE and EW MNCs
- Poland as a ‘stepping stone’ for building European legitimacy
 - Vanguard subsidiaries, 2-step legitimacy building
- Some evidence of „springboarding”
 - Improving quality standards in all operations, change management practices (Electronica)
- Psychic distance perceived as ‘shorter’ than Western Europe
- Similarity in coping mechanisms – vicarious experience, learning from one another (*Jiang et al., 2014; Jimenez de la Fuente, 2016*)
- Chinese embassy as a hub

Thank you for attention.