*White paper*

**Chinese MNCs in Poland:**

**Opportunities, challenges & coping**

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**Research highlights**

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| **Opportunities and motives for entry** | * **Access to Polish market,** one of the largest countries in the EU, with the growing GDP per capita.
* **Stepping stone to other EU markets** (geographic proximity and significant lower barriers of entry than Western European markets - financial an institutional barriers).
* **Availability of strategic assets** (technology, knowledge, reputation 🡪 legitimacy).
* **Efficiency of operations** (labor costs, skills and intellectual capital, lower tariffs).
* **Government initiatives** (One Belt One Road, infrastructure, special Economic Zone).
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| **Challenges**  | * **Cultural challenges** – communication and management style (language barrier; differences in communication style; preferences for communication channels; differences in values; differences in approach to business i.e. the ‘Polish way’ of doing business).
* **Cultural challenges** – image of country of origin (negative stereotype for Chinese products/services).
* **Administrative challenges** – employment institutions, practices and norms, multiple trade unions.
* **Administrative challenges** – legal and government institutions: public procurement law; quality certificates and norms, a difference in the role of the state government in the country’s economy.
* **Economic challenges:** higher price sensitivity, higher demands for quality and brand sensitivity, cost of labor, attracting and retaining local talent.
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| **Coping and learning** | * **Mixed top management teams:** Chinese expatriates and indigenous managers (local expertise);building personal trust; employing of competent local managers, granting autonomy.
* **Bridging cultures:** creating a sense of inclusion; study visits; building on cultural similarities.
* **Improving quality standards to fit the required norms:** adaptation of Polish quality standards; employment of Polish managers to comply with local regulations.
* **Building a ‘European image’:** using acquired brands for selling products on Polish and EU markets; part of operations located in Warsaw, the large capital city in Europe.
* **Compliance with law and mastering public procedures:** consulting and legal services, local lawyers, development of competencies in winning public tenders.
* **Broadening labor and talent pool:** the largest employer within the investment location; employment agencies and employed migrant workers; recruiting employees from Chinese diaspora in Poland, offering higher salary than the industry average.
* **Using Chinese Embassy as agent** 🡪 **networking** opportunities, facilitated learning.
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| **Role of Poland in international expansion of Chinese MNCs** | * **A stepping-stone to Western European markets: vanguard subsidiaries; institutional stability**, **compatible with EU standards; a post-transition economy more permissive for Chinese investments**  than Western economies; place to **build capabilities for doing business in Europe**, such as upgrading product standards, familiarizing with procedures and gaining legitimacy for products ‘made in EU’, thus setting foot on the ground for mature European markets.
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**Introduction**

This research was inspired by the growing presence of Chinese direct investments in Poland over the last decade. Poland is a country with the second biggest Chinese investments (after Hungary) in CEE and it is still growing. In 2016 it reached 563 bln USD (Baker McKenzie, 2016). It is also the largest country in the whole region (with a population of nearly 38 million), which makes it very attractive. Our study aimed to shed light on strategies and management practices of Chinese multinational companies operating in advanced-emerging economy of Poland. In particular, it focused on identifying opportunities and challenges presented by the Polish institutional environment (business, economic, social and political institutions) and how they shape internationalization strategies and management practices in Chinese MNCs. By taking a combined institutional and organizational learning perspectives we investigated **how Chinese MNCs respond to institutional pressures, what coping mechanisms they develop and use to effectively grow in Poland, and whether Poland can be used as a ‘springboard’ for global development of Chinese MNCs.** The research design involved multiple case studies of Chinese MNCs present in Poland, offering practical insights for doing business in a post-transition, medium-sized CEE economy.

The study findings reveal the differences between early and recent entrants related to the role of Polish investment in overall MNC’s internationalisation strategy. The former represented the large flagship companies in consumer electronic and telecommunication services industries, did not target Poland as a particular location for investment, and their entry was a part (and in one case a by-product) of their large-scale global strategy. For those companies the main motivation to expand their operations to Poland was market and efficiency seeking. For the recent entrants, representing more infrastructure oriented industries: heavy construction equipment, power transmission and environmental protection, Poland was the key, and often the very first significant direct investment in EU, and the first step of their planned European expansion. These investments were motivated by the search for strategic assets, in particularly knowledge and technology and legitimacy. Among major challenges we identified the following: cultural differences, employment institutions, legal institutions and perception of the country of origin. In order to face the challenges, researched Chinese MNCs adapted multiple measures, including: mixed top management team, relying on local knowledge and connections, improving quality standards, local image building and using Chinese embassy as an agent.

**Research description**

We conducted a qualitative study of five Chinese MNC with foreign direct investments in Poland. 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, our selection of cases was guided by two criteria: the mode of entry (acquisition vs. greenfield investment) and the position of the Polish investment in the overall regional internationalization strategy (primary vs. secondary market in EU). The description of case companies is presented in Table 1 in the Appendix. Company names are anonymized for publication. We interviewed top managers in the subsidiaries and, in some cases, in the headquarters, and supplemented our findings with secondary data from organizational documents, publications and observations. Data was collected in the period of 10 months, between May 2018 and February 2019.

**Key findings**

**Opportunities and motives for entry**

* **Access to Polish market**. In terms of ***size***, Polish market is one of the largest countries in the EU with the growing income and was seen as a good market for consumer products. It was even more evident for the capital goods and infrastructure products and services. The growth of the economy combined with still underdeveloped infrastructure, as compared to Western European countries, made Polish market very attractive.
* **Stepping stone to EU markets.** With ***geographic proximity*** and significant ***lower*** ***barriers of entry*** than Western European markets Poland was chosen as a ‘stepping stone’ to further European expansion. First, the ***financial*** barriers are lower investing in Poland, whether as greenfield or acquisition required less spending, than in any Western EU countries. Second, the ***institutional*** barriers, such as quality norms and formal requirements in some industries (infrastructure, environment, heavy machinery) are still less restrictive than in Western European countries, such as Germany, France or the UK, therefore the access to market in these industries is easier for companies without previous experience.
* **Availability of strategic assets.** One of the key assets was access to ***technology and knowledge***. This was most evident for the group of late entrants who allocated production activities in Poland. Even when they possessed advanced technology themselves, the acquired Polish firms were attractive as offering complementary technologies, which allowed for increasing product portfolio or creating products and services more compatible with the needs of the European market. The investments in Poland were also a way to gain ***legitimacy***, either through an acquisition of a brand or a production site, or through gaining references for completing a project in a EU country. Having a recognized European brand in the portfolio or a record of experience in a EU country was considered a strategic asset necessary for further European expansion.
* **Efficiency of operations. *Labor costs*** in Poland, while higher than in China, is significantly ***lower than in Western European*** countries with comparable access to ***skills and intellectual capital***. Therefore three out of five companies decided to locate production in Poland and one of them opened an R&D center. This combined with ***lower tariffs*** and proximity to other EU countries allowed the companies to increase efficiency of their operations.
* **Government initiatives**. The OBOR (***One Belt One Road***) initiative for which Poland is a hub created ***additional demand*** for investments, thus increasing the market potential. It also provided the ***infrastructure*** facilitating transport and logistics. On the other hand the Polish government passed an act, by which since July 2018 whole Poland is a ***Special Economic Zone***, which provides ***incentives*** ***for investors*** in the form of tax relief[[1]](#footnote-1).

**Challenges**

* **Cultural challenges – communication and management style.** One challenge came from ***language barrier***. While English was the common language of communication at the top management level, the communication between expatriate managers and workers and communication with suppliers, customers and Polish government official was difficult. Another challenge was related to ***differences in communication*** style. While Chinese expatriates were accustomed to communication which is top down and indirect, the Polish nationals communicate directly and in a two-way manner. Such a difference led to misunderstandings and sometimes mistrust in internal relations, but also, provided a challenge in communication with customers. The differences in ***preferences for communication channels*** also created problems. In Poland the preferred channel of distant communication is phone or e-mail, which for most of Chinese management using instant communication (Wechat) was perceived as an obstacle in daily communication. The additional challenge related to communication came from the ***differences in values***. Most Chinese managers, especially those, without international experience found it difficult to overcome the fact that the arguments for intensifying efforts for the better future of the company don’t work for Polish employees. The final cultural challenge concerned the ***differences in 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 being vague in the issue of responsibility.
* **Cultural challenges – image of country of origin.** The ***negative stereotype*** for Chinese products and services to be cheap and of mediocre quality was identified as a challenge in most cases. Even in the hi-tech industries, where Chinese companies begin to take the lead on global markets the ‘image challenge’ still existed.
* **Administrative challenges – employment institutions.** The Polish ***labor law***, being aligned with the EU labor law, protects the employee. Such protection was seen as a challenge for some firms in terms of controlling labor costs, or achieving labor flexibility in terms of working hours or flexible employment contracts. Also ***employment practices and norms***, such as working overtime, coming to work in the weekend or national holiday, or moving to another job position within the same company were difficult to implement in Polish subsidiaries. Another challenge faced by the company which acquired a large production plant in Poland came from the ***multiple trade unions*** existing in the local site. Unlike in China, the largest trade unions in Poland are external to the company and some are more assertive in their approach.
* **Administrative challenges –** **legal and government institutions.** The ***public procurement law*** in Poland was reported to be one of the greatest legal challenges for companies providing services to institutional customers. 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. 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 final set of challenges concerned ***a difference in the role of the state government*** in the country’s economy. Studied companies which developed in the economy with a significant government involvement and coordination were challenged by the fact that Polish state government is not in total control over public investment and they needed to negotiate with multiple stakeholders both public and private.
* **Economic challenges.** One challenge was presented by the preferences of Polish consumers. The Polish 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. While the cost and availability of human capital was one of main reasons for investments in Poland, many managers pointed to the fact that the ***cost of labor was higher than in China***, which increased costs of local production and ***attracting and retaining local talent*** with the necessary expertise was still a challenge.

**Coping and learning**

* **Mixed top management teams.** Majority of studied companies had top management teams consisting of Chinese expatriates and indigenous managers. Such a solution allowed to ***use local expertise***, such as knowledge of the markets both for products and resources, customer relations, and employment relations. ***Building personal trust*** between expatriate and local managers facilitated management of local operations, especially in the difficult task of subsidiary restructuring and integrating. The efficiency of this, however, depended on the cultural sensitivity of top managers and the length of stay of expatriates in Poland (the longer, the better). 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.
* **Bridging cultures.**  Building trust was achieved through demonstrating commitment to Polish operations and ***creating a sense of inclusion*** of Polish management and staff into the company by showing respect for local tradition and educating local management and staff about the company culture. All companies organized ***study visits*** for best performing Polish staff in HQ in China and for Chinese staff in the Polish sites, which had a positive effect on mutual understanding and learning, and also enhancing of the company’s employer’s brand among the local staff. In the process of restructuring close cooperation between Chinese and Polish managers and ***building on cultural similarities***, such as strive for success, work ethics and the ‘need to catch up’ still present in the Polish management culture after the transition helped to accomplish the difficult task of subsidiary restructuring and, as a result, improvement in productivity and efficiency.
* **Improving quality standards to fit the required norms.** All companies adjusted their procedures and products to meet the required standards, both Polish and the EU. Managers of the companies that entered Poland as the first EU market acknowledged that this adjustments constituted a part of a broader strategy of European expansion, and they treated their ***adaptation of Polish quality standards*** as making the first step to break the protectionism in Western European markets. 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.
* **Building a ‘European image’.** To overcome the challenges related to the image of country of origin, the companies use several means to build the European image. One of them was ***using acquired brands for selling products on Polish and EU markets*** while gradually building own brand. All companies also had an ***important part of operations located in Warsaw*** (in one it was R&D center, in the remaining case – corporate offices), even if the production facilities were located in different parts of Poland, to have the sales, marketing and technical hubs in the large capital city in Europe.
* **Compliance with law and mastering public procedures.** All companies use of ***consulting and legal services*** before and after establishing a subsidiary in Poland, even to address daily administrative issues. Some companies hired ***local lawyers*** to design flexible employment contracts and prepare documents for public tenders. Two companies ***developed competencies in winning public tenders*** through learning and mastering the bidding procedure. For example, during the six years of their presence in one company 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.
* **Broadening labor and talent pool.** The location of production facilities in the region, where the company is the ***largest employer*** allowed some of the studied companies to secure the labor supply and reduce turnover. In addition two production companies used ***employment agencies*** and ***employed migrant workers***. On top of that most of the studied companies were ***recruiting employees from Chinese diaspora*** in Poland, which allowed to cope with cultural challenges. It was particularly important for plants located in parts of Poland in a distance from large cities, where challenges related to language and cultural differences were the most significant. The problem of attracting and retaining local talent was usually addressed by ***offering higher salary*** than the industry average.
* **Using Chinese Embassy as agent.** To overcome institutional challenges, many companies ***used Chinese Embassy as an agent***, for example in negotiations with potential customers or with the Polish government. It was also the way to take advantage of ***networking*** opportunities and facilitated learning.

**Role of Poland in international expansion of Chinese MNCs**

* **A stepping-stone to Western European markets.** The research results demonstrate that while Poland has been considered an attractive location for all studied companies it was more important for the recent entrants in the industries that can be described as ‘infrastructure goods and services’ (heavy machinery, environmental protection, power transmission) who deliberately target Poland to set up their ***vanguard subsidiaries*** in preparation to enter other European countries. The findings show that Poland was often compared to Western European countries, particularly to Germany and France, which was often considered the ‘ultimate target’. For the recent entrants the ***institutional stability***, and in particularly the stable legal system, ***compatible with EU standards*** and the vicinity to other EU countries and at the same time as ***a post-transition economy more permissive for Chinese investments*** both institutionally and culturally than institutionally mature Western economies, was perceived as place to ***build capabilities for doing business in Europe***, such as upgrading product standards, familiarizing with procedures and gaining legitimacy for products ‘made in EU’, thus setting foot on the ground for mature European markets.

**Appendix 1**

**Characteristics of case companies**

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| **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

1. Polish Investment & Trade Agency. <https://www.paih.gov.pl/why_poland/Polish_Investment_Zone> Accessed: 15.08.2019 [↑](#footnote-ref-1)