

Internationalization Strategy, Entry Modes and Cultural Dimensions of Chinese Way of Doing Business in Europe

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ABSTRACT

This paper presents the process of Chinese outward direct investment in Europe. It argues that the driving motive of Chinese firms to go abroad aimed at acquiring new skills, advanced technology, brands and supply chains that would enhance their competitive advantage in international as well as domestic markets. A remarkable feature of the Chinese cross-border business expansion is the essential role of government in the internationalization of Chinese MNCs which was supported by official policy instruments, including the famous “go global” strategy that encouraged thousands of Chinese firms to invest abroad. To this end, the Chinese investment in Europe has generally targeted few but major economies, namely Germany, UK and France despite the investment growth in Southern and Central European nations in recent years especially after the financial crisis. Merger and acquisitions has been the leading market entry mode resulting in huge takeovers characterizing Chinese investment in Europe. It is also apparent that the internationalization process of Chinese business companies did not follow the traditional Uppsala model as psychic distance and experiential knowledge didn't play a role. Nevertheless, it is evident that the path-dependency of Chinese expatriates in European countries has made it difficult to learn and adapt to the local work environment that exhibits diverging and contrasting cultural values. This huge cross-cultural gap, often portrayed in the literature as “culture conflict”, constitutes the biggest challenge that Chinese companies face, in their international operations in general, and could undermine their effectiveness in doing business in European countries in particular.

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ABSTRAK

Makalah ini menyajikan proses investasi langsung keluar China di Eropa. Ia berpendapat bahwa motif penggerak perusahaan China untuk pergi ke luar negeri bertujuan memperoleh keterampilan baru, teknologi canggih, merek, dan rantai pasokan yang akan meningkatkan keunggulan kompetitif mereka di pasar internasional maupun domestik. Ciri yang luar biasa dari ekspansi bisnis lintas-batas Tiongkok adalah peran penting pemerintah dalam internasionalisasi MNC Cina yang didukung oleh instrumen kebijakan resmi, termasuk strategi "go global" yang terkenal dengan mendorong ribuan perusahaan China untuk berinvestasi di luar negeri. Untuk tujuan ini, investasi China di Eropa pada umumnya menargetkan ekonomi utama, yaitu Jerman, Inggris dan Perancis meskipun pertumbuhan investasi di negara-negara Eropa Selatan dan Tengah dalam beberapa tahun terakhir terutama setelah krisis keuangan. Merger dan akuisisi telah menjadi mode entri pasar terkemuka yang menghasilkan pengambilalihan besar-besaran yang menandai investasi China di Eropa. Serta jelas bahwa proses internasionalisasi perusahaan bisnis China tidak mengikuti model *Uppsala* tradisional karena jarak psikis dan pengetahuan pengalaman tidak berperan. Namun demikian, terbukti bahwa ketergantungan jalur dari ekspatriat China di negara-negara Eropa telah membuatnya sulit untuk belajar dan beradaptasi dengan lingkungan kerja lokal yang menunjukkan perbedaan nilai-nilai budaya. Kesenjangan lintas budaya yang besar ini, yang sering digambarkan dalam literatur sebagai "konflik budaya", merupakan tantangan terbesar yang dihadapi perusahaan China, dalam operasi internasional mereka secara umum, dan dapat merusak efektivitas mereka dalam melakukan bisnis di negara-negara Eropa pada khususnya.

Kata Kunci: Budaya Bisnis, MNC China, Mode Masuk, Internasionalisasi

INTRODUCTION

In this era of globalization, the internationalization of industrial goods and services has become a key feature of the global economy in which thousands of multinational companies (MNCs) along with their branch offices, also known as ‘subsidiaries’, are engaged in business worldwide (Gilpin, 2001). Business firms tend to internationalize *via* investing in the overseas often aiming at partial or complete control over marketing, production and assets in another economy (Gilpin, 2001). While this tendency of outward investment has been a phenomenon of the developed countries, internationalization from the developing nations is also getting a momentum economies with China recently emerging as one of the leading outward investors (Nicolas & Thomsen, 2008; Parmentola, 2010; Blomkvist & Drogendijk, 2016).

Even though China’s contribution to the global outward direct investment was historically small, since the mid-2000s it has increased dramatically to reach USD 366 billion in 20

11 (EUCCC, 2013). The Chinese outward investment has grown substantially, especially in the years that followed the global financial crisis, to constitute roughly 10% of global FDI flows making China the world’s second largest investor after the USA (Dreger, Schüler-Zhou, & Schüller, 2017). Chinese investment activity is likely to intensify in areas like ICT, automated machinery, and medical devices over the next years due mainly to integration of markets (Dreger, Schüler-Zhou, & Schüller, 2017). It is in this vein that Clegg & Voss (2012, p. 8) described China as a “new colonial power” that is wielding its economic muscle and influencing the internal affairs of others.

Accordingly, the Chinese outward investment has become an issue of a particular importance in the global political economy over the last decade (Clegg & Voss, 2012; EUCCC, 2013). This is especially true in the context of Europe for it is a largest destination (twice as much of USA) of Chinese outward investment (Rabellotti, 2017) absorbing slightly greater than 40% of Chinese investment stock in developed countries (Dreger, Schüler-Zhou, & Schüller, 2017). The importance of Chinese investors in Europe is also demonstrated by a significant increase in the number of iconic acquisitions recently undertaken all over Europe (Rabellotti, 2017).

Yet, as [Nicolas & Thomsen \(2008, p. 2\)](#) argued the implications for domestic firms in terms of competition could be far-reaching from “less well known is China’s diffuse but expanding footprint in Europe” ([Tartar, Rojanasakul, & Diamond, 2018](#)). This presence of the Chinese firms in Europe, described by others as the “March to the West,” has also the potential to bring substantial changes in the economic structure of the region as a whole ([Dreger, Schüler-Zhou, & Schüller, 2017](#)). It is against this background that this paper is designed in such a way to explore the driving factors and entry modes of Chinese business investment in Europe.

METHODOLOGY

This research is designed to be an exploratory study. It is meant to be an exploratory research to provide an understanding of the fundamental rationale and patterns of evolution of Chinese outward direct investment, discuss internationalization strategies of Chinese MNCs in view of theoretical models and discuss how their culture affects their business engagements. To this end, this study has relied on secondary data collected from literature and utilized the qualitative approach of data analysis. In doing so, the author has reviewed the literature of international business, particularly relevant theories and models of internationalization, presented in the proceeding section. In the next section, the paper highlights the evolution of Chinese outward direct investment in a more general manner and discuss internationalization strategies of Chinese MNCs in view of theoretical models that explains the process. This is followed by an assessment of motives and drives, and entry modes of Chinese firms’ in outward direct investment in Europe. The fifth section of this paper shall give a cultural framework to the discussion of Chinese firms’ international business operations in the destination countries of Europe to vindicate the challenge that arises as a result of differences in doing business at home and host nations. The last section concludes by reiterating the major points and indicating the way forward.

LITERATURE REVIEW

INTERNATIONALIZATION’: THE CONCEPT AND REVIEW OF THEORIES

A glance at a literature reveals that “internationalization” is one of the most studied topics and its conceptualization has developed over the past half a century. [Johnson and Vahlen \(1977\)](#) defined “internationalization” as a process through which companies eventually increase their international business involvement.

It is a dynamic concept often understood as the process of increasing involvement in both inward and outward sides of international operations, which has the following dimensions, including:

- (1) set of inter-related decisions and strategies;
- (2) consists of the outflow and inflow of products, service or resource that crosses national boarder; and
- (3) internal factors of the firm and environmental forces influence the process (Dawei, 2008).

The discussion on internationalization would inevitably bring crucial concepts, i.e. “internationalization strategy” and “entry mode” to the front. In this regard, Robert Gilpin (2001) states that foreign direct investment (FDI), mergers and ventures are among the usual international corporate strategy utilized as entry modes to establish a permanent position in another economy. FDI generally entails either the building of new facilities to create a subsidiary from scratch, known as “greenfield” investment (Hellström, 2016), or the purchase of existing businesses often accompanied by takeovers and intercorporate alliances with firms of other countries, called “merger and acquisitions” (M&A) (Gilpin, 2001; Aureli & Demartini, 2010; Aharoni, Tihanyi, & Connelly, 2011).

Although multinational firms have existed for a very long time, studies on internationalization are relatively recent. Early empirical researches, in 1960s, on the subject, made a distinction between ‘exporting’ versus ‘FDI’ (Buckley & Casson, 1998). Pioneer, in this regard, is Vernon’s product cycle theory, which upholds that firms go through an exporting phase before switching first to market seeking FDI, and then to cost-orientated FDI, in which technological and marketing forces explain standardization and location decisions (Buckley & Casson, 1998). In the 1970s, scholars identified licensing, franchising and subcontracting as other strategic options, and “co-operative arrangements” like M&A and international joint ventures (IJVs) became important in 1980s (Buckley & Casson, 1998; Aharoni, Tihanyi, & Connelly, 2011). In the last decade of 20th century, the cost and cultural factors have come back to the scene with the regard to the discussion on doing business abroad especially due to the tremendous increase of the role of FDI in developing countries such as China and Vietnam (Buckley & Casson, 1998).

In general, the past half a century has witnessed the emergence of variety of theories dedicated to the explanation of conducting business abroad and firms' internationalization strategies. These theories and models range from "Internalization" and "Principal-Agent" theories, which are based on neoclassical economic assumptions of cost minimization and risk avoidance; to the 'behavioral' approach that views international expansion as series of decisions made by managers with "bounded rationality"; to "imperialism" that regards international investments an attempt to monopolize business activities abroad in which critical importance of state intervention is considered; to "born global approach" that poses composite "global frame-of-reference" in which the so called "soft factors" like international networks as prerequisites (Aharoni, Tihanyi, & Connelly, 2011; Buckley & Casson, 1998; Kessler, Prandini, & Wu, 2014). However, for the purpose of this paper, I would only emphasize on three conventional models and present them as per their relevance for understanding and analysis of the Chinese firms' internationalization to European nation, which will be discussed thoroughly in the proceeding sections.

THE UPPSALA MODEL OF INTERNATIONALIZATION

The Uppsala model, often called the "Scandinavian stages model" of entry, views the internationalization process as a sequential pattern of entry into successive foreign markets. This process includes firm's engagement in (i) purely domestic activities, then (ii) start exporting *via* independent representatives, (iii) establishing sales subsidiary, and (iv) production or manufacturing in foreign economy (Johanson & Vahlne, 1977).

This model is based on the distinction between state and change aspects of internationalization variables. The state aspects are market commitment and knowledge of foreign markets, whereas the change aspects are decisions to commit resources and performance of current activities, and hence, "interplay between cumulative market knowledge and decisions to increase commitment to international markets" (Johanson & Vahlne, 1977; Aharoni, Tihanyi, & Connelly, 2011). The basic idea being, the market knowledge and market commitment influence both commitment decisions and the current business decisions, which, in turn, affect market knowledge and commitment and vice versa (Johanson & Vahlne, 1977; Aharoni, Tihanyi, & Connelly, 2011).

The stages model also underlines the importance of two crucial motions: “psychic distance”, the socio-cultural and linguistic differences, levels of economic development and patterns of business practices, etc.; and “experiential knowledge,” their general experience in trans-border activities (Johanson & Vahlne, 1977).

According to this model, firms are supposed after strengthening their domestic business position, firms could minimize the perceived uncertainty and enhance opportunities if they start foreign business with minimum psychic distance and through experiential knowledge (Ibid.).

RESOURCE BASED VIEW (RBV)

The resource-based view (RBV) upholds that firms’ internationalization and the entry mode comes with the desire to utilize different resources that a company has in particular local context, and to drive optimum the opportunity for organizational learning (Barney, 1991). The RBV views business firms as a combination of physical, financial and other intangible resources. The intangible resources include, *inter alia*, human capital, technological assets, brands, organizational image (Parmentola, 2010; Barney, 1991). There is a consensus among scholars that resources are necessary prerequisite for sustainable competitive advantage though dependent on value, rareness, imitability and substitutability (Barney, 1991; Aharoni, Tihanyi, & Connelly, 2011).

Aharoni *et al* (2011) argue that, from perspective of RBV, management practices and skills such as problem-solving ability, discipline and motivation are nothing but resources of MNCs embodied within human capital that could be used as a leverage for competitive advantage in the international marketplace. Building on this premise, scholars argue that the foreign market entry mode decisions are generally driven by the desire to exploit existing resources in wider markets and to increase them with new resources *via* obtaining as well as developing strategic resources available elsewhere (Parmentola, 2010).

NETWORK PERSPECTIVE

The network perspective attempts to address the importance of “soft factors,” one being the relevance of ‘networks’ in the internationalization process (Kessler, Prandini, & Wu, 2014). It is Johanson & Vahlne who continued examining the Uppsala model of the process of internationalization and have come up, in 1990, with this model by applying a network perspective *via* including knowledge gained through relationships with other bodies on the foreign market operations. It is argued here that industrial networks, formed as a result of interactions with other firms, affect foreign investment activities, which in turn shapes a firm’s market knowledge (Aharoni, Tihanyi, & Connelly, 2011).

To this end, ‘internationalization’ is understood as developing networks of business relationships in other countries through extension, penetration, and integration (Dawei, 2008). It has to be noted, here, that ‘extension’ means the creation of new set of networks, whereas ‘penetration’ entailed enhancing the already prevailing positions of the firm through increasing resource commitments in networks, and ‘integration’ meant the coordination of different national networks (Dawei, 2008). Thus, if the relationships between firms are seen as a network, it can be argued that firms internationalize because other firms in their international network are doing so (Ibid.).

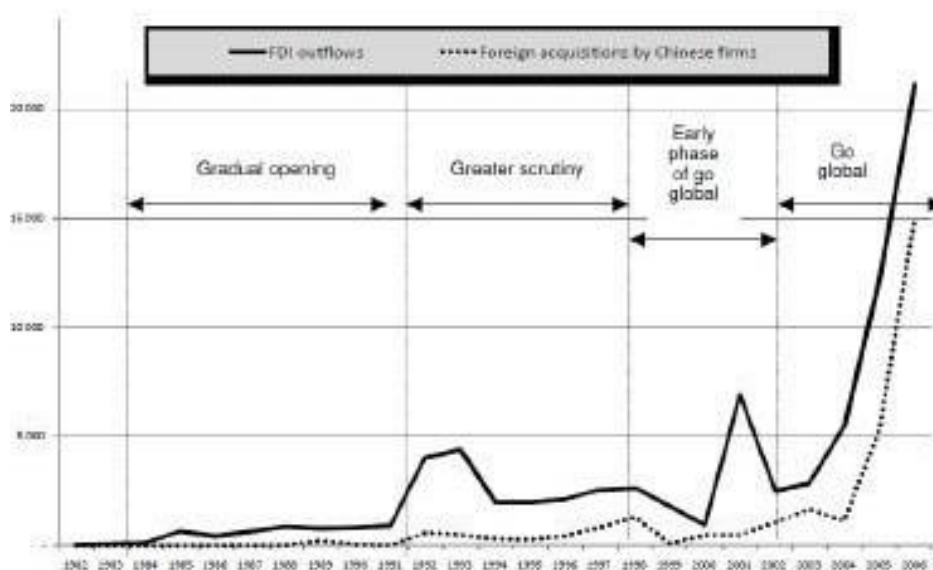
The strength of the network model of internationalization is in explaining the process rather than the existence of multinational or international firms. From the network perspective, the internationalization strategy of a firm is explained by the need to:

- (i) reduce the requirement for knowledge development,
- (ii) cut the demand for modification, and
- (iii) make use of the available network positions (Dawei, 2008).

Besides, the network model presents the importance of the firm’s own business network and the relevant network in the foreign market both of which are necessary conditions for successful internationalization (Kessler, Prandini, & Wu, 2014). Since firms operate in a well-developed and competitive networks, internationalization through external resources appears to be the best strategic option, especially to small firms, in the face of globalization. As a result, mergers and acquisitions, co-operation, alliance and joint ventures may become a major source of international network instability for which firms in the network have to be prepared (Kessler, Prandini, & Wu, 2014). In the next section, the above theories will be utilized to explain the internationalization process in the context of Chinese companies.

RESULT CHINESE OUTWARD DIRECT INVESTMENT EVOLUTION OF CHINESE OFDI

A wide array of literature portray that China has, historically, been rather the major recipient of foreign direct investment, and thus only a minor contributor to global investment flows (Aureli & Demartini, 2010). However, the 1978 reform became a turning point as China eventually rose as a global outward investor and net capital exporter (Hanemann & Rosen, 2012; Nicolas & Thomsen, 2008). Following the reform, “Going Out” strategies were adopted in such a way to widen opportunity for export markets and to enhance the capacity and experience of Chinese multinational corporations (Guerrero, 2017). However, the outward investment during the first decade was generally limited due to over regulation of the national government until the late 1990s, when the government launched the so called “go global” (*zou chu qu*) policy (Nicolas & Thomsen, 2008). Below is the diagrammatic depiction of the phases of Chinese outward foreign direct investment.



Source: Nicolas and Thomsen (2008, p. 3).

Figure 1: China’s OFDI & Cross-border Acquisitions (in Mill. USD), 1982-2006

As shown, in the diagram above, the five phases of Chinese OFDI are:

- a. Phase I (1979–83): This phase was characterized by limited investment activities abroad because they are strictly linked to the political objectives of the government. Only state-owned companies and provincial and municipal-based corporations were allowed to invest overseas upon approval of the State Council (Nicolas & Thomsen, 2008).

Hence, many companies did not have the desire or capacity to go for internationalization in the years that followed the reform (Hanemann & Rosen, 2012).

- b. Phase II: This time “gradual opening,” witnessed the standardisation of approval procedures during the period from 1984 up to 1992. Non-state firms were allowed to go abroad although the autonomy of the overseas investment of these enterprises was restricted through complex procedures and fund limitations (Nicolas & Thomsen, 2008).
Phase III (1993–98): During this time, the Chinese government
- c. Strengthened regulations on overseas investment projects with a view to ensuring that capital was properly invested in the overseas for productive purposes (Nicolas & Thomsen, 2008).
Phase IV (1999–2002): This is when the “go global” strategy
- d. Started as the firms got official support from the Chinese government to do business in overseas in view of encouraging the Chinese export. This time, the government granted export tax incentives, lifting tight controls on foreign exchange and reducing administrative requirement (Nicolas & Thomsen, 2008; Ebbers & Zhang, 2010).
Phase V: this period covered the time after the adoption of “go global” strategy. The ‘go global’ policy was confirmed at the
- e. CCP’s 16th Congress in 2002 with the aim of encouraging local firms to take part in the international markets with the investment decisions of their own. Unlike what it used to do earlier, the government gradually became a mere supporter and service provider with some authorities granted to local level governments and foreign currency controls are relaxed (Nicolas & Thomsen, 2008).

Following the go global policy, the Chinese outward FDI flows exploded in the mid-2000s (Hanemann & Rosen, 2012). As of 2007, the magnitude of the Chinese outward investment has become 128 billion USD (three-fourth of which is outside the financial sector), as more than ten thousand Chinese MNCs have taken part in FDI in more than 170 countries making China one of the top outward investors (Nicolas & Thomsen, 2008). Since 2012, and after a series of policy adjustments and buoyed by huge state subsidies, several government owned enterprises (SOEs), private telecom companies, electronics producers & suppliers, and real estate companies have all actively ‘gone out’ (Guerrero, 2017).

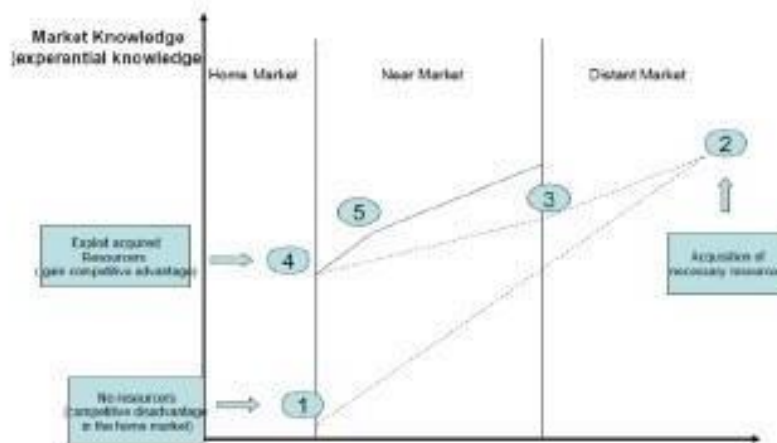
To this end, Chinese firms have headed to every corner of the globe with aim of securing resources and technology that its modern booming economy requires but also to get global recognition for Chinese brands (Ibid.).

INTERNATIONALIZATION STRATEGIES OF CHINESE MNCs IN THEORETICAL LENS

Several scholarly works have tried to explain the internationalization strategy of Chinese companies by making use of the mainstream literature on multinationals' development. A study conducted on 18 Chinese business firms has made it possible to locate investments along the value chain stages: headquarters, innovative activities, sales activities, logistics and distribution activities, and production activities (Amendolagine & Rabellotti, 2017). Such classification of Chinese firms' internationalization into value chain stages typically resemble the traditional "Scandinavian/ Uppsala model" which views internationalization as series of business engagement from the domestic activity to export, then to sales and manufacturing in foreign economy. On the contrary, other studies show that the internationalization process of the Chinese companies, compared to that of Western World, is determined by range of factors and thus, have its own unique features that cannot be explained using the conventional theories of firm's internationalization (Parmentola, 2010). After thoroughly studying the two Chinese giants (Haier and HiSense), Parmentola (2010) has found out that the internationalisation choice of these firms:

- i. are meant to minimize competitive disadvantage in local markets through acquisition of "strategic immaterial resources" rather than aiming to exploit existing resources;
- ii. have started to invest, as part of their international business, in developed countries (US and Europe) that have greater "psychic distance" due to both geographic and cultural distant from China;
- iii. adopted different and slightly complex entry modes even during early phase of their internationalization processes;
- iv. did not gain market knowledge through a "learning-by-doing behaviour," in most cases Chinese firms adopt an "imitative-learning behaviour," observing other Chinese firms and foreign competitors, in order to acquire necessary knowledge in the initial phase of their internationalisation process (Parmentola, 2010).

Taking this factors into account, [Parmentola \(2010\)](#), has come up with an alternative theoretical model based on new hypotheses that in part contrast but also combines the two traditional models of International Business, i.e. the RBV and the Uppsala model, in order to describe and analyse the process of internationalization of the Chinese companies.



Source: Parmentola (2010, p. 272)

Figure 2: Parmentola's Alternative Model of Chinese Companies Internationalization

According to [Parmentola \(2010\)](#), the internationalization process of Chinese firms starts from a low level of market knowledge and limited experience (as indicated in Point-1 in the Figure 2 below), entering into distant market (often a developed country), in the very first phase, using complex entry mode (as acquisitions and/or JV) that would help them obtain market knowledge and the brand reputation (as depicted in node-2 above) necessary to export in the same distant markets (node-3) and to acquire a competitive advantage in the home market (node-4). He further argues that it is only in the second phase that the Chinese firms are able to undergo the internationalization pattern (along the node 4 to 5) that resembles expansion of developed countries firms after accumulating and exploiting the acquired resources and experience to enter gradually into near markets ([Parmentola, 2010](#)).

Other scholars have opted to adopt the network model to explain the internationalization of Chinese MNCs. It is the personal relationships and unofficial networks that significantly helped Chinese companies in achieving their goals ([Kessler, Prandini, & Wu, 2014](#); [Drahokoupil, 2017](#); [Miedtank, 2017](#)).

Chinese companies, being late comers in the global FDI, lacking market-specific business knowledge, need the acquisition of relevant network necessary for the growth and expansion of business activities abroad (Kessler, Prandini, & Wu, 2014). From this perspective, Chinese MNCs have to internationalize to establish relevant network in the foreign market that would enable them overcome disadvantages at home and/or to meet international standards. Lenovo's major motive to internationalize, for example, was to enhance its international networks in such a way to advance its technology and gain international recognition (Miedtank, 2017). Once IBM agreed to distribute Lenovo's PCs, Lenovo's acquisition sped up, the company increased its internationalization with recognition due to the international network. In the same fashion, other Chinese companies investing in European firms, such as Huawei and Geely, have been doing the same to establish a strong network to adapt to international standards or to strengthen their position in the Chinese market itself (Miedtank, 2017). QJ corporation, a Chinese SOE investing Italian automotive sector, represents another example in this regard (Aureli & Demartini, 2010).

Nicolas and Thomsen (2008) strengthened the same viewpoint arguing that the collectivist culture of Asian societies necessitates relationships for the simple reason that it enhances competitiveness *via* minimizing costs of transactions. This has helped Chinese firms to acquire much better "social capital" that effectively lowered their transaction cost and gave them an advantage, over the Western companies, in forming and managing alliances and networks that characterizes their internationalization process (Nicolas & Thomsen, 2008). Unlike the traditional MNCs, which are highly tied to a 'home base', the Chinese companies are more likely to start to be global in their attitude, strategy and organization. It is further argued that the "Dragon multinationals" are "not burdened with historical baggage in their organizational structures, strategies and mentalities that derive from a previous era", which has offered the "rapidly acquired advantages over slower-moving, even in markets that have traditionally been viewed as global" (Nicolas & Thomsen, 2008, p. 28).

Similarly, Luo and Tung (2007) argued, in what they termed as a "springboard model", that the Chinese companies have systematically used international expansion as a "springboard" for acquiring valuable resources and assets, ultimately boosting their position in international market.

These “springboards” are reported to have enabled the Chinese companies are able to overcome their competitive disadvantages and domestic institutional challenges, which eventually made them strong competitors in the international markets (Luo & Tung, 2007). Access to advanced technologies and specific industrial knowledge, among other things, has assisted Chinese companies to compensate for their competitive disadvantages (Kessler, Prandini, & Wu, 2014).

Others have come up with the so-called “leap-frogging strategy”, “sideward crawl strategy”, to describe and explain the Chinese companies’ internationalization “targeting market in developing countries first is similar to crab, which walks sideward and go very far away without noticing anyone so that they would apply their “low-cost, non-brand products” in these countries as they do in domestic markets (UK Essays, 2015). All these explain why many Chinese companies investing in Europe systematically organize and maintain longer-term strategic operations with merger and acquisitions as a preferred market entry mode (Kessler, Prandini, & Wu, 2014). This will directly take us to the motives, market entry modes, ownership patterns and major destinations of Chinese outward investment in Europe, which are discussed in the next section.

CHINESE OUTWARD DIRECT INVESTMENT TO EUROPE

As part of the transition by Chinese investors from an interest in developing economies to high-income economies, Europe has become an important destination for Chinese outward FDI (Hellström, 2016). This was manifested in the “take-off”, a decade ago, when annual inflows tripled from 2006 to 2009, tripled again by 2011 to \$10 billion (€7.4 billion), and the deals with value of more than 1 million USD doubled from less than 50 to almost 100 in 2010 and 2011 (Hanemann & Rosen, 2012). In fact, in 2014-15, the EU was estimated to be the largest market for Chinese acquisitions, in terms of value (Hellström, 2016).

Accordingly, there is a consensus that Europe has begun experiencing a structural transformation in outward direct investment by Chinese firms.

MOTIVES AND DRIVES OF CHINESE OFDI IN EUROPE

The motives and drives of Chinese companies outward direct invest in Europe have been well studied and yet of divided opinion. Drahekoupil (2017) posits that the main driver of Chinese business internationalization was ‘political’ as the government has long been influencing Chinese companies’ investment strategies taking into account several factors such as level of development, economic perspectives, and the interests of individual target countries.

The state has affected the “overseas investment strategies of Chinese firms in many ways such as through the allocation of credit, the degree of competition in the home market, or its role as owner of corporate assets” (Dreger, Schüler-Zhou, & Schüller, 2017). As perfectly captured by Kessler *et al* (2014), although the market system has developed over the last decades, China continues to be a “political economy” due to active governmental involvement in business *via* ownership and regulation.

The Chinese outward direct investment trends and evolutions described above cannot be understood without reference to the role of the state and its policies which have evolved from restrictions to encouragement (Dreger, Schüler-Zhou, & Schüller, 2017). And, this was clearly manifested in the ‘Going-out’ or ‘Going *Global*’ strategy which became part of the official economic policy when it was included in the 10th Five-year Plan for 2001–2005 (Drahokoupil, 2017). Even more is to come as “the Chinese government—within the framework of the *Made in China 2025* strategy—is striving for worldwide leadership in key technologies by 2049”, the 100-year anniversary of the People’s Republic (Dreger, Schüler-Zhou, & Schüller, 2017, p. 157). Looking at this new phenomenon, i.e. China deploying capital beyond its borders, some scholars have even portrayed the country’s geopolitical intent as a reason for its overseas investment and as an indicator of Chinese wider international political strategy (Clegg & Voss, 2012).

According to Hanemann & Rosen (2012), however, Chinese direct investment in Europe is driven overwhelmingly by commercial motives. They argue that although “China’s policies of encouragement of going abroad are impacting investment decisions, firms can make rational judgments about locating operations” *via* appraising opportunities in the European markets (Hanemann & Rosen, 2012). They also contend that the “mix of industries targeted, the high number of private enterprises making investments, and the competitive behaviour of companies after they arrive and set up shop in Europe all point to profit” as the greatest motive in China’s outward FDI story. Generally, as Nicolas & Thomsen (2008) noted, many Chinese firms investment in Europe has been driven by their interest to maintain their competitiveness globally instead of harnessing locally available advantages. Nevertheless, Chinese firms are involved in internationalization, investing abroad driven by profit, like any other commercially motivated investors, of course, taking into account a wide range of considerations.

An empirical study conducted by [Blomkvist & Drogendijk \(2016\)](#) has revealed that, between 2003 and 2012, the main motives for Chinese investment in Europe are “market seeking” and “strategic asset seeking”. In the same vein, other studies have revealed that the desire to obtain advanced technology, brands, management skills, distribution channels in such a way to guarantee themselves direct access to the European markets and acquire cheap assets on sale, especially after the financial crisis of 2008 ([Hellström, 2016](#); [Rabellotti, 2017](#)). Explicitly stated, the Chinese firms utilize “international expansion in order to tap into resources that would otherwise be unavailable” ([Nicolas & Thomsen, 2008, p. 27](#)).

For many Chinese firms, the acquisition of well-known brands and technological know-how are the fundamental elements for breaking away from a competition back home ([Hanemann & Rosen, 2012](#)). And, in Western European countries, access to advanced technologies and established brands has helped Chinese businesses get higher position in the global value chain and become more competitive. According to [Dreger *et al* \(2017\)](#), the world’s three largest manufacturers, all based in Germany or Italy, are now under Chinese control. China has also acquired some of Europe’s leading providers of ICT, energy, robotics and automotive products ([Dreger, Schüler-Zhou, & Schüller, 2017](#)).

The investment drive is motivated, moreover, by a need to export capital rather than creating domestic bubbles. Oversupply in the Chinese industrial sector, combined with a stock market slump since June 2015, has led to disenchantment with investment opportunities in the Chinese market. In addition, domestic financing of overseas corporate takeovers has become much less costly as a result of low interest rates and continued liberalization of Chinese capital control. Such cyclical factors contribute to the recent acceleration in China’s cross-border acquisitions. At the same time, China seeks expertise and experience in higher-end industries and services, which has led to a shift in Chinese investment from developing and emerging economies to high-income economies ([Hellström, 2016](#)).

GEOGRAPHIC DISTRIBUTION OF CHINESE OFDI IN EUROPE

Studies conducted by different scholars on geographical distribution of Chinese OFDI reveal that there are large differences among European countries in absorbing Chinese investments ([Blomkvist & Drogendijk, 2016](#)). Nevertheless, Europe’s big three, i.e. Germany, United Kingdom and France, are the leading destinations ([Hanemann & Rosen, 2012](#)).

In the year 2012 alone, these three economies, have received nearly 9 billion USD OFDI from China, which amounts to 50 per cent of all Chinese FDI stock in the EU countries (Amendolagine & Rabelotti, 2017). These countries together with the Netherlands, Italy and Spain have absorbed about 76 per cent of the total of Chinese investments in the EU between 2003 & 2014 (Amendolagine & Rabelotti, 2017).

During the same period, of all the countries, Germany is, by far, found to be the top destination of Chinese investments, receiving 37 per cent of total investments between 2003-2014 (Amendolagine & Rabelotti, 2017). The Chinese investment in Germany are mainly in the automotive industry, by and large, going to Bavaria as a special cluster, and in the machine industry, in which the main attracting regions are again Bavaria and Baden Wurttemberg (Ibid.). Yet, there is an important “core-periphery divide”, when it comes to Chinese outward investment in Europe manifested in the Greece, Portugal and Cyprus skepticism about Germany, France and Italy pushing for an EU-wide investment screening mechanism that the former governments think would undermine their ability to attract necessary capital (Tartar, Rojanasakul, & Diamond, 2018).

OWNERSHIP PATTERN OF CHINESE ODI IN EUROPE

Looking at the ownership patterns, Chinese outward foreign investment capital is increasingly coming from private sector, while state-owned enterprises (SOEs) have continued to dominate the investment made in Europe (Hellström, 2016). In all, more than 670 Chinese entities have invested in Europe since 2008. Of those, almost 100 are state-backed companies or investment funds, which collectively had a hand in transactions worth at least \$162 billion, or 63 percent of the total reported deal value, as compiled by Bloomberg (Tartar, Rojanasakul, & Diamond, 2018). Eight of the 10 largest acquirers identified were either state-owned or backed by government including the Silk Road Fund Co., a sovereign wealth fund connected to China’s Belt and Road Initiative, see Table 1 below (Tartar, Rojanasakul, & Diamond, 2018).

Table 1: Top Ten Chinese Companies Investing in Europe (2008-2018)

S.N.	Name of the Chinese Company	Inv. Value (Bill. USD)
1.	China National Chemical Corp.	58.2
2.	China Investment Corp.	24.2
3.	Aluminum Corp. of China Ltd.	14.1
4.	Avic Capital Co.	11.6
5.	Silk Road Fund Co.	10.5
6.	Tencent Holdings Ltd.	9.9
7.	China Petrochemical Corp.	8.8
8.	China Cinda Asset Management Co.	8.6
9.	Shanghai Pudong Dev. Bank Co.	8.6
10.	China Citic Bank Corp.	8.6

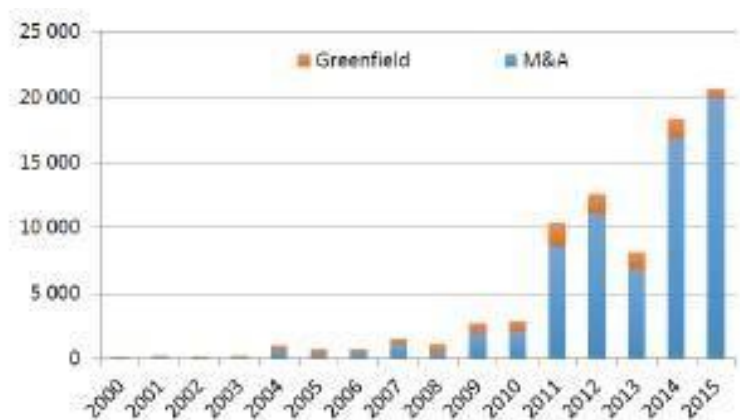
Source: Tartar, Rojanasakul & Diamond (2018)

An additional 30 or more entities are currently owned by one of China's provinces or municipalities (Tartar, Rojanasakul, & Diamond, 2018). State Owned Enterprise (SOEs) have made an investment worth 78% of the total investment value Between 2008 and 2013 (Dekeyser, 2017). After 2015, it is the privately owned enterprises (POEs) that have risen to lead Chinese investment in Europe in terms of the number of deals from 30% in 2015 to 74% in 2016, accompanied by the growth of its share in total investment value risen from just less than 5% before 2010 to more than 30% in 2013 and more recently even trying to overtake (Dekeyser, 2017).

Yet, the line between state and private enterprises is far more blurred in China: The Cosco group of companies, a container shipping consisting of publicly traded branches of state-owned China Ocean Shipping Group Co., and has bought stakes in, or operate in, ports from the Bosphorus to the Baltic Sea (Tartar, Rojanasakul, & Diamond, 2018). Nonetheless, the SOEs dominated nature of Chinese OFDI has brought a concern among many of the EU governments with regard to the "potentially non-commercial or political motives" of Chinese firms to invest in Europe (Dekeyser, 2017), besides the criticisms continuing as to the close relationships between investors and political interests (Dreger, Schüler-Zhou, & Schüller, 2017).

ENTRY MODES TYPES OF CHINESE ODI IN EUROPE

Studies show that early phase of Chinese OFDI of big value began in the form of international joint ventures (IJV), Chang'An Motors and Nanjing Automobile Group being good examples for managing to start producing motor vehicles with European, USA, Japanese and other companies of developed world (Aureli & Demartini, 2010). Eventually, the Chinese OFDI in Europe has been dominated by greenfield projects in wide range of sectors which is often described as "unusual" entry mode for a developing country (Hanemann & Rosen, 2012). After the implementation of the "go global" policy, it appears that the vast majority of China's FDI in Europe comes in the form of merger and acquisitions (Aureli & Demartini, 2010). In 2004, the Chinese company Nanjing Automobile Group (NAG) bought British MG Rover production line and brand (Aureli & Demartini, 2010). According to Hellström (2016), acquisitions consisted greater than 95% of China's outward investment flows to the EU in the year 2015 alone.



Source: Hellström (2016, p. 22).

Figure 3: Chinese OFDI in EU by Entry Mode (Investment in Million USD) 2000-2015

Major acquisitions of European firms, including Volvo (Swedish car maker), and Kuka (the Germany’s industrial robot maker), have attracted a significant interest besides the Chinese investment in Piraeus (Greek’s shipping terminal) and Hinkley Point C (the proposed British nuclear power facility) (Hellström, 2016; Aureli & Demartini, 2010). In 2016 alone, 37 Chinese stakes in German companies, estimated to be 9.7 Billion Euros, were completed or announced, including the purchase of mechanical engineering company KraussMaffei for 925 million Euros (Bian & Emons, 2017). And, as the pace of acquisitions is dramatically rising, it has become a reality that, on average, one German company falls into Chinese ownership each week (Bian & Emons, 2017).

Currently, Chinese investors own, partially or wholly, “at least four airports, six seaports, wind farms in at least nine countries and 13 professional soccer teams” (Tartar, Rojanasakul, & Diamond, 2018).

Investors in the service and electronics sectors, on the other hand, such as ICBC, Huawei & ZTE only invest using the greenfield entry mode (Amendolagine & Rabellotti, 2017). It is worth mentioning here that many Chinese firms also employ combination of greenfield as well as M&A (mergers and acquisitions) at a time, a phenomenon described by Amendolagine & Rabellotti (2017) as “complex entry mode strategy”. Such complex entry modes have often been used in the capital and knowledge intensive manufacturing industry, such as automotive (SAIC), chemicals (ChemChina, China National Chemical), and energy (Suntech Power Holdings) (Amendolagine & Rabellotti, 2017).

However, as alluded to, the vast majority of the Chinese firms investment in Europe has taken the form of M&A, and this is the reason why many question whether the Chinese investment in Europe is either one of corporate takeovers (Hellström, 2016).

TOP SECTORS OF ENGAGEMENT

Chinese investments in the European countries cover a wide range of economic sectors that differ substantially across years. It is reported, however, four out of five acquisitions, on average, are in manufacturing (Amendolagine & Rabellotti, 2017). In the service industry, 18 per cent of the acquisitions are in the computer and programming industry and the remaining ones are in publishing, information services and telecommunications (Amendolagine & Rabellotti, 2017).

Table 2: Top Chinese Investment in Europe by Sectors (2008-2018)

S.N.	Investment Sector	Value (in Bill USD)
1.	Chemicals	48.8
2.	Energy	34.5
3.	Mining	23.1
4.	Internet/Software	15.1
5.	Automotive	14.8
6.	Finance	14.3
7.	Manufacturing	8.6
8.	Entertainment	7.8
9.	Commercial	6.9
10.	Construction	6.6

Source: Adapted from Tartar, Rojanasakul & Diamond (2018)

According to Amendolagine & Rabellotti (2017), whose study covered 836 deals of Chinese firms investing in Europe (2003-2011), nearly a half of the Chinese investments are directed to only four industries: electronics (15.31%), machinery and engines (13.64%), communications (11.6%) and automotive (7.42%). Between 2010 and 2014 for instance, 95% of Chinese investment in the EU was concentrated in seven business sectors, with one-third in the energy sector, 23% in real estate, followed by manufacturing, agriculture, finance and ICT (Amendolagine & Rabellotti, 2017).

Recently, however, other sectors such as hospitality industry, utilities, transportation, and infrastructure have also become important, due to a sharp decline in FDI in real estate combined with decrease of capital for the energy sector (Dekeyser, 2017). Although Chinese investment in Europe has witnessed a growing diversification of sectors, making it difficult to predict top target industries, recent figures show an increasing appetite for advanced manufacturing assets, which counted for more than one third of total Chinese investment in the EU in 2015 and 2016, mainly motivated to upgrade their technological knowhow (Dekeyser, 2017).

CHINESE AND EUROPEAN CULTURAL DIFFERENCES IN DOING BUSINESS

In this section, an attempt is made to present a summary of scholarly findings and discussions regarding some common patterns of doing business among Chinese companies vis-à-vis the local culture in Europe as per their relevance.

The concept of “culture” is so broad and dynamic that, nonetheless, encompasses norms, values, expectations, artefacts and belief systems shared by the members of a society (Hofstede, 2001). Culture defines the ways of living through influencing people’s attitudes and behaviours in the everyday social interactions (Aureli & Demartini, 2010). And, “business culture” is generally defined as the culture in which people do business and how they interact with each other while doing business (Kessler, Prandini, & Wu, 2014). It includes, *inter alia*, norms, individual values and organizational values, working language, symbols, beliefs and working habits (Hofstede, 2001).

It is argued that national culture does shape business culture as it influences the cognition and information domain of decision-makers thereby affecting the way decisions are taken, strategies formulated and goals identified and oriented (Aureli & Demartini, 2010). Besides, cultural values are basically difficult to modify unless external economic, technical or social conditions undergo a major change (Aureli & Demartini, 2010). To this end, it is normal to observe significant cultural differences, between European countries and China, which are self-revealing in the way businesses are conducted. Instead, understanding the core values of the Chinese investors in managing their business in subsidiaries and the manner of their interaction with the local workforce is pervasive in so far as the most Chinese companies are “doing business in a Chinese way” in Europe (Miedtank, 2017; Drahokoupil, 2017; Kessler, Prandini, & Wu, 2014). These are indications of the fact that Chinese managers doing business in Europe may encounter several difficulties in working with local managers and employees as the introduction of their own business practices in strategy formulation, management control and HRM, which could potentially contrast with existing workforce attitudes, behaviors and management systems (Aureli & Demartini, 2010). Table 3, below, presents the cultural differences of China and four major destination countries of Chinese OFDI in Europe, as reflected in the scores for five cultural dimensions of Hofsted’s index (2001).

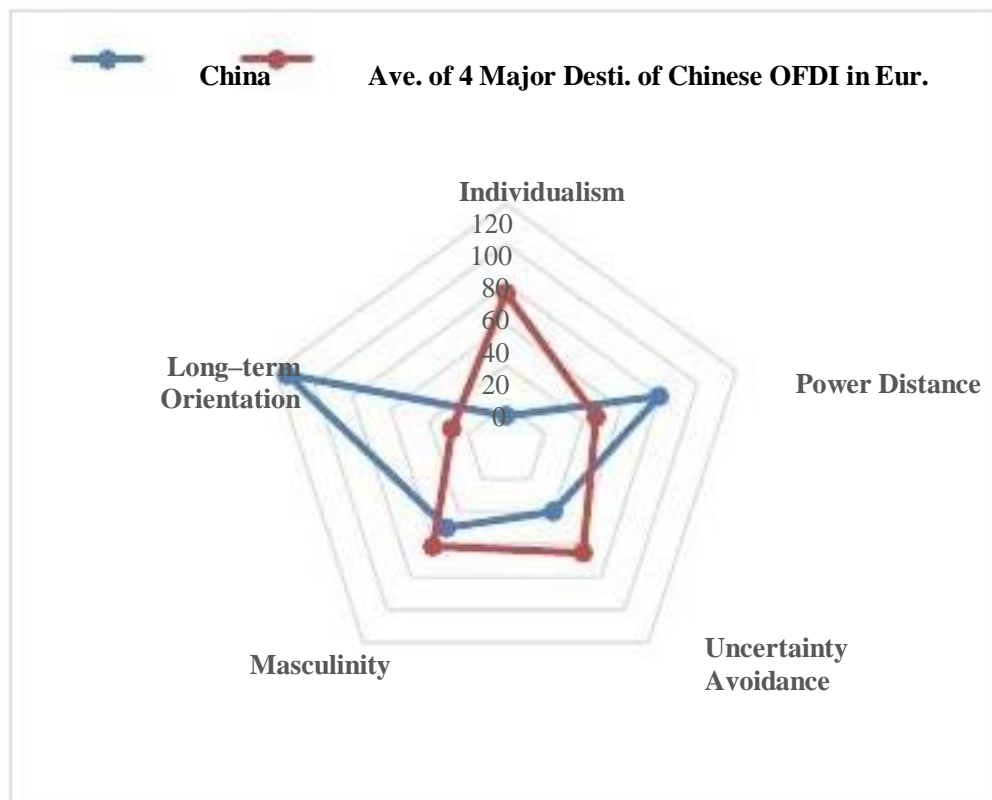
Table 3: Cultural Dimensions of China and Four Destination Countries of Europe

S. N.	Cultural Dimensions (CD)	Scores of Individual Country				
		China	France	Germany	Italy	UK
1.	Individualism	15	71	67	76	89
2.	Power Distance	80	68	35	50	35
3.	Uncertainty Avoidance	40	86	65	75	35
4.	Masculinity Long–	50	43	66	70	66
5.	Term Orientation	114	n/s	31	n/s	25

610

Source: Hofstede’s Cultural Map (2001).

Although there are no values for Italy and France with regard to the time orientation in Hofstede’s (2001) work, it appears, from the score of Germany and Great Britain, whose average is 28, that China is also characterized by a considerable long-term orientation. And, if one compares the mean value of the five cultural dimensions of the four countries in the above table with that of China, it appears that Chines are significantly different from these European countries. in terms of individualism, power distance and uncertainty avoidance, despite some degree of similarity on masculinity, see Figure 4.



Source: Own Computation and Adaptation from Hofsted’s Index (2001).

Figure 4: CD Scores of China vis-à-vis Mean of Four European Nations

It is self-revealing, in Figure 4 (see above), that the Chinese scores for long-term orientation, individualism and power distance is almost a direct contrast compared to the average value of four countries in which they mostly do their business. This implies that Chinese are strongly oriented towards achievement of long-term goals, while its European counterparts aim at avoiding uncertainty of any form. The low score for individualism indicates how Chinese are collectivist that values teamwork as opposed to the four destination countries. Similarly, the Chinese meaning of power and authority, formal positions and status happens to be more or less the opposite to the European nation due to the nature of Chinese social structure which is strongly hierarchical. These differences observed in the scores for the cultural dimensions have been verified by several empirical studies conducted on Chinese subsidiaries found in various European countries.

Kessler *et al* (2014) confirmed, after studying 50 Chinese firms, that the Chinese culture is ‘collectivistic’ and ‘network-oriented’, as opposed to the European value of ‘individualism’, which is inherently reflected in the Chinese management practices. Chinese managers in subsidiaries, for instance, prefer to seek help within their network instead of trying to obtain professional assistance in order to overcome the challenges they face, or they prefer to “learn by trial and error” (Kessler, Prandini, & Wu, 2014, p. 29). This collectivistic culture of the Chinese is also evident in “company performance” which is considered as the achievement of team efforts of all persons involved in operations. Hence, Chinese managers and employees tend to have a strong sense of loyalty and duty toward the organization, which is perceived as a strong cohesive group where relations are based upon trust (Aureli & Demartini, 2010).

In China, work relations are understood are strongly hierarchical in contrast to European countries, where it is more equal despite differences across countries. In Chinese companies, orders are supposed to be strictly obeyed and the instructions of higher ranked employees are followed due to high power distance that defines the hierarchical work relations. This is often manifested in the “managerial unilateralism” and “authoritarian style of leadership” that the Chinese expatriate managers have been pursuing in Europe, where local employees perceive them as “less social” (in UK), as “problematic and dysfunctional” (in Germany) and more “work centered” (in Italy) as they expect overtime work from workers even during religious holidays (Miedtank, 2017, p. 84).

There is also marked cultural difference between European countries and China in terms of is ‘directness’ that could be explained by power distance. Chinese expatriates usually avoid direct conflicts at all levels *via* escaping debates with managers and workers on their decisions regarding work performance assessment (both in terms of methods and accompanying reward systems) benefits and incentives (Miedtank, 2017; Aureli & Demartini, 2010). The Chinese tend to be indirect in criticism, which contrasts with the more direct feedback style of Europeans.

Chinese managers often focused on the solution, instead of the person, if a mistake is committed, which is perceived to be ineffective by local European employees (Miedtank, 2017; Aureli & Demartini, 2010). From the perspective of the Chinese managers, high power distance means that they should not involve in any direct confrontation that leads to ‘conflict’ because it amounts to “losing reputation” within the organization; whereas, the lower power distance of local employees in Europe presents “scarce conformity and deference to authority” resulting in misunderstandings between the two groups (Aureli & Demartini, 2010, pp. 21-22).

Aureli & Demartini (2010) have studied a state-owned Chinese corporation, QJ, that acquired the Italian motorcycle, and found out that Chinese managerial systems do not only diverge but also contrast the Italian culture of business as observed in: (i) planning orientation, (ii) systems of control and (iii) HRM deriving from the merging of two different cultures. The Chinese managerial systems consisted of “Challenging targets in the medium-long range” due to long-term orientation and low level of uncertainty avoidance that characterize Chinese culture, unlike the Italians who prefer structured planning in order to define goals and implement accordingly to realize them. For Chinese, it is the “achievement of defined targets”, instead of “following the defined procedures”, that constitutes the object of control system and, then “looking for trust” as a mechanism to implement control system within the firm which takes a more informal way than structured way (Aureli & Demartini, 2010, p. 20). Talking about the HRM in Chinese subsidiaries, Miedtank (2017) has summarized her review of literature on Chinese HRM between 2001 and 2015, into three themes which portrays that Chinese companies, as opposed to MNCs of European countries: (i) have adopted a ‘light-touch’ or ‘hybrid’ approach toward managing their European subsidiaries; (ii) they continue to send abroad a large number of expats who are inexperienced resulting in a growing “unintended home-country effects”; and (iii) visible differences in HR practices and policies between privately owned and state owned Chinese companies.

As for the first basic difference in managing the subsidiaries, the adoption of ‘light-touch’ approach could be explained by the Chinese “long-term orientation” that fundamentally affects the choice of integration mode (Miedtank, 2017; Drahokoupil, 2017). As already mentioned in the previous sections, the dominant entry mode of Chinese firms into European economies is M&A, which is viewed as a long-run investment. Since they don’t expect immediate returns, they tend to adopt the ‘light integration’ also labelled as ‘light-touch approach’ or ‘partnering approach’ (Drahokoupil, 2017). Accordingly, the managers of Chinese MNCs rarely guide the HR management departments or decision-making processes of their subsidiaries in Europe, and this ‘passive’ managerial approach are attributed to the Chinese cultural influence known as ‘wu wei’, the concept of “active non-action” (Miedtank, 2017).

From the Chinese view point, such a management approach might be considered ‘desirable’ as professional organizations that have educated workforce need invisible leaders to empower employees and preserve harmony. Yet, as a study with regard to Chinese subsidiaries in Germany revealed, although local managers often exercise “high autonomy” in deciding on operational and sometimes strategic issues, final decision remains with the Chinese management (Miedtank, 2017). This is due mainly to high levels of personal authority and owner domination that underlies the authoritative and coordination control as a defining culture of the Chinese family business (Whitley, 1991). It is apparent in the literature that principles of Chinese family enterprise are used as an advantage to better adapt to conditions of uncertainty, and hence, they are not concerned to establish solid international management structures, but rather quickly develop flexible structures spanning diverse countries and markets (Nicolas & Thomsen, 2008). Besides, the frequent sending, to Europe, of Chinese expats that have limited knowledge of host countries, lack international experience, low international management skills, and without adequate cross-cultural trainings has already created, what Miedtank (2017) termed as “unintended rather than intentional home-country effects”. It appears that Chinese companies do not to engage in a purposeful transfer of HRM skills and practices which are conventionally regarded as crucial variable for the business success in overseas subsidiaries, instead they are heavily involved in “unintended transfer of a Chinese mind-set to Europe” (Miedtank, 2017, p. 86).

The Chinese home-country effects manifest themselves in the implicit form of the transfer of management values, such as overlooking the strategic importance of HRM and some unrealistic expectations like “hard work” in the workplace (Miedtank, 2017). The Chinese expatriate managers are also easily challenged by local staff with superior knowledge and expertise (Miedtank, 2017).

As Aureli & Demartini (2010) noted, limited or ad-hoc training is provided for Chinese expatriates in Europe focusing on cross-cultural issues but lacks a long-term (pre-departure and post-departure) systematic component of development planning and management processes. To this effect, the “lack of managerial talent” in Chinese firms has become the biggest obstacle to their overseas expansion, as overwhelming majority of the Chinese executives verified, in one survey that covered 150 MNCs, that “their globalization efforts were hindered by the scarcity of people with real cross-cultural knowledge or experience managing foreign talent” (Nicolas & Thomsen, 2008, p. 29).

Studies have revealed that State-owned companies and private companies face different regulatory and institutional environments. While Chinese private businesses are generally flexible and were able to adopt HR values and practices of the host countries, the SOE have been reported to be highly centralized, complex and prone to government intervention, and highly influenced by HR practices and policies of the home institutions (Miedtank, 2017; Luo & Tung, 2007; Drahekoupil, 2017). Private companies, after expanding to Europe through social networks, tend work with host country institutions to enhance their HR practices than replicating Chinese employment practices in order to advance in their future. However, the complexity of state-owned companies’ organizational structure in combination with communication difficulties can create complex problems between Chinese and European partners.

To sum it up, Chinese expatriate managers’ home-developed interpersonal and communication skills are therefore not readily transferable to different contexts, and in particular not to Western Europe (Miedtank, 2017). As Nicholas and Thomson rightly put it Chinese firms will continue to suffer from the drawbacks of their “path dependency”.

CONCLUSION

In this paper, an attempt has been made to present the process of Chinese outward direct investment in Europe. From the discussion based on the review of literature, it has been noted that the Chinese business expansion abroad is a recent phenomenon, which became meaningful only in the last decade when China has recently become a net exporter of capital. A remarkable feature of the Chinese cross-border business expansion is the essential role of government in the internationalization of Chinese MNCs which was supported by official policy instruments, including the famous “go global” strategy that encouraged thousands of Chinese firms to invest abroad.

Literature on the subject also shows that the driving motive of Chinese firms to go abroad aimed at acquiring new skills, advanced technology, brands and supply chains that would enhance their competitive advantage in international as well as domestic markets. To this end, the Chinese OFDI in Europe has generally targeted few but major economies, namely Germany, UK and France despite the investment growth in Southern and Central European nations in recent years especially after the financial crisis. Merger and acquisitions has been the leading market entry mode resulting in huge takeovers characterizing Chinese investment in Europe.

Although the involvement of the private companies has grown rapidly in the last few years, the Chinese outward foreign direct investment in Europe still continue to be dominated by state owned (and/or backed) corporations that have managed to takeover numerous firms in Europe. These acquisitions of Chinese SOEs in European countries, labeled by [Hellström \(2016\)](#) as “divestment of strategic assets”, has brought concerns as to whether the Chinese investments have political motives, that [Nicolas & Thomsen \(2008\)](#) believe will continue to “fuel conspiracy theories in the West”.

It is also apparent that the internationalization process of Chinese business companies did not follow the traditional Uppsala model as psychic distance and experiential knowledge didn’t play a role. Studies, instead, reveal that Resource Based View (RBV) and network perspectives could better explain the cross border expansion of Chinese firms as the role of resources as both as a means (e.g. utilization of networks) and objective (e.g. acquisition of assets) of internationalization process was eminent. The internationalization of “Dragon MNCs”, as they are sometimes called, witnessed not an incremental process but one of rapid and loosely structured expansion which depicting somehow what some regarded as “Asian century”.

Nevertheless, it is evident that the path-dependency of Chinese expatriates in European countries has made it difficult to learn and adapt to the local work environment that exhibits diverging and contrasting cultural values. This huge cross-cultural gap, often portrayed in the literature as “culture conflict”, constitutes the biggest challenge that Chinese companies face, in their international operations in general, and could undermine their effectiveness in doing business in European countries in particular.

Given the current pace of internationalization and Chinese continuing appetite for investments abroad, targeting particularly Europe, the basic question remains if the Chinese firms could meet the necessary organizational and managerial skills to lead and coordinate their rapidly expanding global operations. Therefore, long-term cross-cultural training programmes in pre-departure and post-departure are essential for Chinese expatriates in Europe to positively interact with worker, managers and other local stakeholders in such a way to successfully integrate to the work environment in the subsidiaries. Only then, investment brings meaningful results that can benefit both home and host countries, which in turn would not only guarantee the survival but also sustained development of the Chinese MNCs in the future.

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