The dragon comes to Europe
An analysis of the workplace management in Chinese subsidiaries operating in Germany

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King's College London

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The dragon comes to Europe – An analysis of the workplace management in Chinese subsidiaries operating in Germany

Tina Miedtank

A Thesis Submitted in Fulfilment of the Requirements for the Degree of Doctor of Philosophy of King’s College London

Date of Submission: 28.01.2019
Abstract

The rapid rise of China and its foreign direct investment (FDI) in Europe has drawn much attention in recent years. While the majority of Western multinational companies investing abroad tend to utilise their competitive advantages abroad, the majority of Chinese MNEs invest into the German market for strategic assets (Jungbluth 2016; Knörich 2010, 2016a; Liu and Woywode 2013). As Chinese MNEs expand their businesses in Europe, it becomes important to understand how Chinese investors seeking competitive advantages manage the workforce in their foreign operations. This study combines the political economy framework by Edwards and colleagues (2007) with the system, society, dominance, and organisational effects (SSDC) framework by Delbridge and colleague (2011) to examine ‘how are German subsidiaries and their human resource management and employment relations practices affected by their Chinese parent companies’.

In order to answer the main research question, a multiple case study was conducted in six different German subsidiaries owned by Chinese companies.

The study reveals that Chinese companies adopt a light-touch approach toward their German subsidiaries which allows local organisational actor to exercise their agency by drawing on resources from the macro level. The first contribution of this study is that several aspects of the macro and micro level influence the Chinese management and German works council, including by the combined framework suggested system, dominance, institutional, market, and organisational factors, as well as organisational actors. A second contribution is the observation that in the majority of the studied Chinese MNEs investing into the German market, the exercise of agency by the local organisational actors is of significance. The
multiple case study attempts to give insights into how local organisational actors of German subsidiaries owned by Chinese companies gain more autonomy and are empowered through their context.
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<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ACFTU</td>
<td>All-China Federation of Trade Unions</td>
</tr>
<tr>
<td>BRI</td>
<td>Belt and Road Initiative</td>
</tr>
<tr>
<td>BRICS</td>
<td>Brazil, Russia, India, China, and South Africa</td>
</tr>
<tr>
<td>CC</td>
<td>Comparative Capitalism</td>
</tr>
<tr>
<td>CME</td>
<td>Coordinated market economy</td>
</tr>
<tr>
<td>CPC</td>
<td>Communist Party of China</td>
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<td>EE</td>
<td>Emerging economies</td>
</tr>
<tr>
<td>EMENdata</td>
<td>Emerging Multinationals’ Events and Networks DATAbase</td>
</tr>
<tr>
<td>ER</td>
<td>Employment relations</td>
</tr>
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<td>EU</td>
<td>European Union</td>
</tr>
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<td>FDI</td>
<td>Foreign direct investment</td>
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<tr>
<td>GDP</td>
<td>Gross domestic product</td>
</tr>
<tr>
<td>GDP (PPP)</td>
<td>Gross domestic product at purchasing power parity</td>
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<tr>
<td>HRM</td>
<td>Human resource management</td>
</tr>
<tr>
<td>HQ</td>
<td>Headquarters</td>
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<tr>
<td>IB</td>
<td>International business</td>
</tr>
<tr>
<td>IHRM</td>
<td>International human resource management</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>IR</td>
<td>Industrial relations</td>
</tr>
<tr>
<td>LME</td>
<td>Liberal market economy</td>
</tr>
<tr>
<td>M&amp;A</td>
<td>Mergers and acquisitions</td>
</tr>
<tr>
<td>MNE</td>
<td>Multinational enterprise</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>OFDI</td>
<td>Outward foreign direct investment</td>
</tr>
<tr>
<td>POE</td>
<td>Private-owned enterprise</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>Research and development</td>
</tr>
<tr>
<td>SOE</td>
<td>State-owned company</td>
</tr>
<tr>
<td>UK</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>UN</td>
<td>United Nations</td>
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<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
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<tr>
<td>US</td>
<td>United States</td>
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1. Introduction

1.1 Background of the study

Emerging economies have become increasingly present as a source for outward foreign direct investment (OFDI), whereby the investment flows from emerging or developing economies to more advanced developed economies are a relatively new phenomenon. In particular the rise of foreign direct investment (FDI) from China to Western Europe has drawn much attention in recent years. While the reasons for Chinese multinational enterprises (MNEs) to invest in Europe have been discussed many times over, the discussion about the implications for the management, international human resource management (IHRM), and employment relations (ER) practices of Chinese foreign subsidiaries has only begun. This raises the question as to whether Chinese MNEs have a distinct signature in their management of their overseas subsidiaries in developed economies? In response to these developments and question, this study aims to examine the management of Chinese subsidiaries in Germany and whether Chinese MNEs investing in the German market provoke new dynamics?

The research uses a multi-level analysis to explore the management and employment relations practices and policies of German subsidiaries owned by Chinese MNEs (CMNEs). The analysis is based on a combined multi-level framework which draws from the work of the political-economic framework by Edwards, Colling and Ferner (2007) and the System, Society, Dominance, and Organization framework by Smith and Meiksins (1995) and Delbridge, Hauptmeier and Sengupta (2011). The merged framework is applied to analyse how system, institutional, dominance, market, and
organisational levels affect and are used by the local actors of the German subsidiaries owned by CMNEs.

1.1.2 Theoretical Background

The international business literature (IB) studying multinational enterprises emerged in the 1950s. The field has characterised MNEs as organisations that draw resources from a shared pool, following one common strategy, and being responsive to several environmental factors, namely competitors, customers, suppliers, financial institutions, and governments (Rugman and Collinson 2012). For MNEs to invest, survive, and become successful businesses in a foreign environment, initial IB studies argued that it was essential for firms to have competitive advantages (Hymer 1976; Dunning 2001). These competitive advantages can come from a variety of sources, including product differentiation, technological capabilities, and managerial abilities. Dunning (2001) categorised the competitive advantages in his prominent ‘eclectic framework’ focusing on the ownership, location, and internationalisation aspects. The framework explains the extent and pattern of the foreign direct investment of firms, assuming that while companies internationalise, they internalise transaction costs to overcome the mechanisms of the imperfect market. The internationalisation process of MNEs is seen as a sequential process, whereby MNEs gradually increase the level of their resource commitment to foreign markets. Dunning’s approach was considered particularly relevant in the analysis of the early stages of a company’s internationalisation process (Johanson and Vahlne 1990). These frameworks are, however, limited as they cannot account for the internationalisation of MNEs from emerging economies.
More recently, academics have recognised that companies internationalise not only because they want to utilise their competitive advantages, but also because they want to overcome their competitive disadvantage, secure new assets, and create new competitive advantages (Luo and Tung 2007; Knörich 2012; Zheng et al. 2016). Prominent examples are the Chinese acquisitions of Western brands, such as Lenovo acquiring the IBM’s PC business and Geely buying Volvo. Several studies have indeed identified asset seeking as a key driver of Chinese MNEs to invest in developed economies (Ash 2008; Child and Rodrigues 2005; Deng 2007, 2009; Knörich 2012; Luo and Tung 2007; Rui and Yip 2008; Wu and Leung 2005; Yang 2005; Young, Huang and McDermott 1996; Zhan 1995; Zheng et al. 2016). This strategic goal of CMNEs is used recently to explain why Chinese companies invest in more advanced economies without (or limited) competitive advantages (Guillén and García-Canal 2009; Knörich 2012, 2016a; Jungbluth 2016; UNCTAD 2006). The majority of studies on Chinese MNEs operating in developed or more advanced economies is confined to the analysis of the determinants, entry strategies, and motives of Chinese companies, and the implications for FDI theory (Amighini, Rabellotti and Sanfilippo 2013; Boateng, Qian and Tianle 2008; Buckley et al. 2007; Child and Rodrigues 2005; Deng 2009, 2012; Kolstad and Wiig 2012; Ramasamy, Yeung and Laforet 2012; Wang et al. 2012). This phenomenon was labelled by Moon (2004) as an ‘upward investment’. Studies rarely examine the consequences of the foreign activities of Chinese companies for the management and the employment relations of their foreign subsidiaries (exceptions are Shen 2004a, 2004b; Wu and Lee 2001; Zhang 2003; Zhang and Edwards 2007; Zhu 2015; Zhu et al. 2014). It is especially interesting to see how Chinese companies, who enter an advanced market to gain new assets and
overcome competitive disadvantages, manage their overseas workforce to gain access to the local knowledge and technology.

Considering the current global economic developments and political change, many academics highlight the key role of human resource management in the internationalisation process of MNEs (including Brewster and Scullion 1997; Cooke 2012; Huselid, Jackson and Schuler 1997; Scullion and Starkey 2000; Wright and Snell 1998). Bartlett and Ghosal (1991) argued that HRM policies and practices of MNEs can act as mechanisms for co-ordination and control of foreign subsidiaries.

As Chinese MNEs increasingly expand their businesses into the European market (see for instance Cozza, Rabellotti and Sanfilippo 2015), it becomes more important for European and Chinese governments, politicians, trade unions, work councils, managers, and employees to understand how Chinese investors manage their overseas workforce in their foreign subsidiaries.

The international human resource management (IHRM) of MNEs and their foreign subsidiaries are well-studied topics examined from various theoretical perspectives and at different levels of analysis. First, the organisational perspective suggests that the standardisation and localisation of practices are directed by managers and their judgement of the competitive advantage of transferring practices (if there is one). A second perspective, the so-called institutional and cultural perspective, posits that institutional and cultural differences between countries (and regions) are an important factor in shaping different national HRM practices. The third perspective, embodying the critical management studies and actor-centred frameworks, focuses on the role of actors and competing interests within MNEs in shaping HRM practices. After all, organisations are created and managed by people and shaped by the decisions and actions of people. Employees thus possess the agency to influence organisational
outcomes in their subsidiary (Felin and Foss 2005). Individually, these perspectives cannot fully account for the complex patterns of transfer of HRM and ER practices and policies (Gamble 2010). To a varying extent, a combination of factors affects the IHRM of MNEs - ranging from the system, home and host country factors, dominance effect, industry, entry mode, market condition, company specific factors, and organisational actors (among others Delbridge et al. 2011; Edwards and Ferner 2002; Gamble 2010; Geppert and Dörrenbächer 2014; Smith and Meiksins 1995). A multi-level analysis is seen as appropriate to gain deeper insights to understand how HRM and ER practices are shaped in the context of CMNEs investing in advanced economies.

The large body of research on the HRM of MNEs and foreign subsidiaries is still lacking in that it fails to incorporate the behaviour of MNEs from emerging economies. Most studies focus primarily on IHRM of MNEs from advanced economies investing in other developed or developing countries (Almond, Edwards and Clark 2003; Edwards 1998; Edwards and Ferner 2004; Ferner and Edwards 1995; Ferner and Quintanilla 1998; Ferner and Varul 1999; Gamble 2003). This is unsurprising, since prior to the emergence of Chinese MNEs, it was mainly companies from advanced economies that engaged in foreign direct investment. There has been thus less attention for MNEs from emerging economies investing in developed countries due to the novelty of this phenomenon.

Compared to MNEs from advanced economies, Chinese MNEs operating in developed economies encounter a double burden. First, the burden of liability of foreignness (Hymer 1976) which strains MNEs from all economies – developed and emerging. Second, the liability of country-of-origin which is a greater concern for MNEs from emerging economies because of the perceived weaknesses and the lack
of the global economic success (Thite, Wilkinson and Shah 2012). Smith and Meiksins (1995) suggest that a hierarchical order among the national economies creates a dominance effect which affects the transfer or HRM (best) practices between countries. Firms from emerging economies (lower in the hierarchical order) may be interested in adopting practices from companies from more successful economies (higher in the hierarchical order). In reverse, companies and their management from successful economies may assume a superiority of their practices and want to transfer those to less dominant host countries (Ferner, Almond and Colling 2005). Likewise, it can be anticipated that managers and employees of German subsidiaries may believe in maintaining superior managerial and technological expertise compared to firms from emerging economies such as China. Believes, such as the overseas workforce from advanced economies having superior skills, can question the legitimacy and viability of the owners from emerging or developing economies. This novel context can lead to interesting power dynamics within subsidiaries located in advanced economies and owned by EMNEs and is researched in this study. This research will focus on the strategies of local organisational actors in advanced economy subsidiaries owned by Chinese companies.

While the majority of Western MNEs internationalise and have a strategy for their IHRM to utilise their competitive advantage abroad (Child and Rodrigues 2005), the academic knowledge regarding how Chinese MNEs oversee their IHRM practices is limited. An intriguing research object is thus CMNEs investing in advanced economies to access strategic assets. A country that is famous for receiving Chinese investment to access knowledge and expertise is Germany. Chinese companies investing in Germany tend to seek to overcome firm-specific weaknesses by acquiring access to strategic assets in Germany (Jungbluth 2016; Knörich 2010, 2012; Luo and
Tung 2007; Zheng et al. 2016). Such behaviour is not uncommon from MNEs from advanced economies investing in Germany but Chinese MNEs seems to set such strategic objects more often while investing in Germany. A prominent example of a Chinese company investing in Germany is Midea’s acquisition of Kuka Robotics in 2016. Such motivation aiming to transfer assets and knowledge to the Chinese parent company require a long-term effort involving positive and effective management of the German subsidiaries. This kind of transfer processes from a subsidiary to headquarters (HQ) is labelled as ‘reverse transfer’ by Edwards (1998). Few studies focus on reverse transfer of HRM practices and even fewer studies examined the transfer processes and IHRM practices of Chinese companies operating in developed economies. The question arises as to how Chinese MNEs manage their workforce in their German subsidiaries to successfully overcome their competitive disadvantages and how they access their targeted strategic assets in the German subsidiaries?

To address these current limitations of the IHRM field and explore the research opportunities of this newly emerging phenomenon of EMNEs investing in advanced economies, this study uses a multi-level framework to study the human resource management and employment relations of Chinese multinational companies in Germany. More specifically, it examines how Chinese headquarters manage the workplaces of their subsidiaries operating in Germany and how local managers and employees of the German subsidiary operate in this new context. The following section describes the institutional context of China, the characteristics of Chinese FDI in Europe, and the institutional context of Germany.
1.2 The country context of Chinese companies operating in Germany

Over the last four decades, the People’s Republic of China has experienced an exceptional economic transformation from a poor and isolated country to the second largest economy in terms of nominal GDP in 2010 (World Bank 2019). With China’s economic success, Chinese multinational companies increasingly investing abroad have become a novel and intriguing research subject (Knörich and Miedtank 2018).

There are several reasons for focusing on multinational companies from China. First, China has been a prevailing growth centre over the last two decades. The nation has been successfully integrated into the globalised economy by being the ‘workshop of the world’ (Gao 2012). China surpassed Germany as the third largest economy in the world in 2007 and Japan as the second largest economy in 2010, see graph 1.1 for details. In 2016, China’s gross domestic product (GDP) per capita amounted to US$11.2 trillion. Only the United States (US) has a greater GDP of US$18.6 trillion (World Bank 2019). The reasons for China’s economic success story are 1) its gigantic population, 2) its focus on production efficiency and intensity, and 3) foreign financial investments. China is no longer just the ‘workshop of the world’ but has moved on to become a centre of innovation and high-tech companies such as Huawei, Tencent, Xiaomi, DJI, and Alibaba. The country currently strives to become a leading global economy by no later than 2050. Thus, China is likely to continue to be a prevalent economy in the future and increase its global power.
Second, the Chinese state has accumulated the world’s highest foreign-exchange reserve with US$ 3.153 trillion at the end of 2018 (followed by Japan with $1.271 trillion and the Eurozone with $771 billion) (IMF 2018). Bolstered by these high foreign-exchange reserves and China’s economic growth, Chinese MNEs have begun to internationalise rapidly.

Third, Chinese OFDI has risen exponentially over the past 15 years. In 2016, China was ranked as the second largest foreign investor worldwide with its investment totalling US$ 196 billion, according to UNCTAD (2018). This pace of China’s expansion is unprecedented. Whereas according to UNCTAD (2018) data, China OFDI stock was at just US$ 37 billion in 2002, it increased to almost US$ 1.5 trillion in 2017. Annual outward FDI flows increased from US$ 2.5 billion in 2002 to US$ 125 billion in 2017 (UNCTAD 2018). Chinese outward FDI stock and annual flows have started to match the inward FDI which China receives into its economy. Taken together, Chinese companies are thus transforming from being cheap manufacturers
for the world to becoming overseas investors with a global presence in numerous sectors.

Fourth, China’s institutional background is unique in several aspects compared with that of European countries. Comprehending the complexity of China is difficult since China transformed from a planned to a market-based economy within a few decades (Carney, Gedajlovic and Yang 2009; Hancke, Rhodes and Thatcher 2007; Napoleoni 2011). The result of China’s uneven transformation towards a ‘social market economy with Chinese characteristic’ is therefore sometimes also described as a ‘patterned heterogeneity’ (Zhang and Peck 2016). The context that Chinese MNEs operate in is complex, making it an exciting research object. The complexity of the Chinese context is characterised by several characteristics.

First, the institutional context remains heavily influenced by the Communist Party of China (CPC). The Chinese state manages its economy more actively in comparison to European states. The party “takes a dominant rule and coordinates all sectors” (Hutton 2008:144). For instance, China’s trade union, the All-China Federation of Trade Unions, is an organ of the Chinese state. Such a central role of the state can lead to misinterpretation of overseas employment relations systems such as the German one. The German industrial relation system consists of independent trade unions and works councils. The role of state and other institutional actors can lead to potential misunderstandings and challenges between Chinese managers and German employees’ representatives. To add to the complexity, Chinese provinces vary in their employment relation system. Therefore, this study considers the Chinese context and the differences within the country and describes in detail the context of the case companies in order to understand the regional characteristics and differences.
Second, China’s governmental interventions have created different market conditions between state-owned (SOEs) and non-state-owned companies (Yueh 2011; Zhu et al. 2005). During its transformation from a communist to a market-oriented country, the government only partially dismantled the Chinese state sector. Chinese SOEs continue to play an important role and enjoy better market conditions compared to private-owned companies (POEs). For example, SOEs enjoy easier and faster access to financial resources (Yueh 2011; Zhu et al. 2005). Although both Chinese POEs and SOEs have started to internationalise, they have done so with varying kinds of resources and motivations. For example, SOEs tend to invest larger sums abroad and acquire more often foreign companies in Europe compared to Chinese POEs. Chinese POEs invest less but more frequently in greenfield in Europe (Hanemann and Huotari 2017a). Many Chinese multinationals are SOEs which account for half of Chinese outward FDI stock in 2017 (MOFCOM 2018). This difference of ownership and the role of the state sets Chinese multinationals apart from “Western” multinationals.

One reason for the difference in FDI between Chinese SOEs and POEs, is the Chinese state which not only influences the institutional actors and companies, but it also regulates, guides, and promotes OFDI through legal measures and its institutional frameworks (Luo, Xue and Han 2010; Sauvant and Chen 2014; Knörich 2016a). For instance, the CPC has prioritised to upgrade its industry which is reflected in the ‘Made in China 2025’ strategy. This strategy aims to enable Chinese companies to become globally competitive and to move up the value-added chain of production and innovation networks. Examples are acquisitions in advanced economies and the establishment of R&D centres to obtain foreign know-how (Luo et al. 2010). Other countries also have policies and regulation for outward FDI, but the degree of planning and regulation of Chinese OFDI in comparison to EU and other countries is unusual.
Fourth, China’s outward foreign direct investment is controversial in Europe as it is influenced by the Chinese government and very little is understood. Chinese investment in Europe derives from a country that has not been a traditional political partner of the EU and is not a known supporter of democracy and the liberal international economic order. EU politicians and reporters are concerned with the economic, political, and security implications of such state involvement in Chinese OFDI for EU economies. The ‘China is taking over the world’ fear is increasingly prominent in many Western media outlets, and Chinese investment in Western economies is a controversial and politically-charged topic. Some examples of headlines are: The Economist’s “Chinese takeovers: Being eaten by the dragon” in 2010 or Der Spiegel’s “M&As in Germany – Fear of the Chinese” in 2016. At the beginning of 2018, such debates were again heated when it was made public that the owner of Geely bought a €7 billion (£6.2 billion) stake in Daimler AG – becoming the luxury carmaker’s biggest shareholder. The media, such as Wall Street Journal (2018) and the German magazine Focus (2018), wondered what the Chinese intentions were for investing in Daimler, while Reuters (2018) speculated that ‘Germany could tighten rules after Geely takes Daimler stake’. European governments fear that the state-backed asset-seeking acquisitions may over time undermine European companies’ technological leadership and Europe’s security.

Due to the above-mentioned idiosyncrasies of Chinese FDI, attitudes and approaches towards Chinese investments are double-edged swords in the EU. Initially, Chinese FDI was welcomed and considered to be an important source of capital, employment, and economic activity. Recently, however, European governments have become increasingly suspicious of Chinese FDI. In the beginning of 2018, European politicians have reacted to the Chinese investment with a joint Franco-German-Italian
statement urging the EU Commission for the protection of ‘strategic’ sectors. At the end of November 2018, the European Commission, European Council, and European Parliament reached an agreement to allow the coordination of national screenings of OFDI in Europe proposed a draft. In 2017, Germany also tightened its rules of investment especially in their sensitive and key industries and extended the range of deals eligible for official reviews. This move followed after the takeover of German industrial robotics firm Kuka by Chinese company Midea in 2016. A current example where these rules have been applied is the bid from Stategrid for a 20 per cent stake in 50Hertz, a German energy grid company. German politicians fear that Chinese FDI comes with political strings attached. Merkel for instance stated: “The question is (...) are the economic relations being linked with political questions? This would not be in the spirit of free trade” (Chazan 2018). European politicians are thus increasingly concerned about potential threats to their national security and the potential existence of an unfair level playing field when Chinese firms are state-owned or state-backed.

There are several reasons for these worries. First, Chinese investment often comes from state-owned industries which is assumed to be part of a larger strategic and government-directed plan of economic expansion. Second, Chinese investments tend to have a political dimension. There are accusations that China is influencing European politics. For instance, since the financial crisis, China is a significant investor in Greece. As the only EU member, Greece vetoed a shared EU position on human rights in China at the United Nations (UN) in June 2017 (The Economist 2018). Third, Chinese investment focuses on acquiring critical infrastructure and aims to transfer local expertise and technology to China. Such transfer processes weaken the competitive advantages of the acquired companies. In August 2017, the former German Minister for Economics, Zypries, stated the following about Chinese
investment: “On the one hand, the inflow of capital is a positive development, as it shows the attractiveness of Europe. On the other hand, one has to note that these investments are one-sidedly concentrated on hi-tech companies and companies that provide key technologies which shows obvious connections to the ‘China 2025’ strategy decided by the Chinese government.” (DW 2017). The Made in China 2025 strategy draws on many of the ideas also included in the German Industry 4.0 plan and thus represents a challenge to advanced economies, including Germany.

Such worries about Chinese investment overlook other developments in China. First, although China is an economic growth centre and has a high GDP, its GDP purchasing power parity (PPP) is low in comparison to that of the United States (US), Japan, and Germany - see graph 1.2. Second, China’s economic strategy is based on a credit-driven growth model that has left its debt growing faster than the economy. In 2017, China’s corporate debt amounted to 150% of its GDP, making it one of the highest in the world. This corporate debt poses a serious threat to China’s economic stability. Third, some state-owned enterprises (SOEs) remain inefficient and continue to be supported by the government. Monopolies are created at the expense of dynamic private-owned firms. These economic problems limit the country’s competitiveness and future prosperity. Chinese investment in Europe and Germany is still low in comparison to that in the US or Japan. While, according to data from the US Department of Commerce, US FDI stock in Europe alone has reached US$ 3.6 trillion in 2017 (Akhtar 2018), Chinese FDI in the EU has only reached €30 billion in 2017 (Hanemann and Huotari 2018). At the moment, China’s foreign investment remains limited compared to previous decades, but admittedly, Chinese OFDI quickly increases.

Besides the heated debate of Chinese FDI in Germany, the rational for selecting Germany for this case study is twofold. First, Germany is chosen for its 'coordinated' market economy (Hall and Soskice 2001). The majority of studies focusing on the IHRM of Chinese MNEs in developed economies focus on Australia and the United Kingdom (UK) (e.g. Fan, Zhang and Zhu 2010; Lai 2016; Shen 2004b, 2005; Shen and Darby 2006; Shen and Edwards 2006; Zhang and Fan 2014; Zhang and Edward 2007; Zhang, Edwards and Ma 2014). Studying Chinese subsidiaries in Germany allows us to gain more insights into how institutions in a coordinated market economy are utilised to affect the decision-making processes within Chinese subsidiaries. The second reason for choosing Germany is that it receives one of the highest OFDI from China in Europe. Chinese investors conducted 348 deals in Germany between 2003 and 2013. To compare, China ‘only’ invested in 192 projects in the same period in its second largest European recipient, the UK (EMENdata 2014). Thus, Germany is practically and empirically an interesting host country of Chinese MNEs to focus on.
To sum up, China’s investment in Germany offers an exciting research context for its economic development and success, its global ambitions, and its unique institutional context. This newly developed context is useful to test the further developed framework combining the work of Edwards and colleagues (2007) and Delbridge and colleagues (2011).

1.3 Research objectives and questions

Given the predominance of international human resource management (IHRM) studies focusing on Western European and North American MNEs (Glover and Wilkinson 2007; Wright et al. 2005), there is relatively little research on the new development of IHRM of EMNEs investing in more advanced economies. While the majority of the studies focuses on the HRM management of MNEs who utilise their competitive advantages abroad, the majority of Chinese MNEs invest into the German market for strategic assets seeking purposes (Jungbluth 2016; Knörich 2010, 2016a; Liu and Woywode 2013). Studies have rarely examined the IHRM of Chinese companies and how the HRM and ER practices are affected if companies invest for strategic asset seeking purposes (exceptions are Akorsu and Cooke 2011; Cooke and Lin 2012; Shen and Edwards 2004, 2006; Zhang 2003; Zhang and Edwards 2007). There are two studies focusing on Chinese acquisitions in Germany and both observe a light-touch approach (Knörich 2010, Liu and Woywode 2013). Chinese owners tend to leave the local management team of their German acquisitions intact, granting it operational autonomy, and often continuing to work with the local workforce. As a result, many acquired subsidiaries in Germany operate very independently, and are only supported by Chinese headquarters and a few posted Chinese expatriates (Knörich 2010, 2016b; Miedtank 2017). The question is whether such an approach enables Chinese companies to transfer knowledge from Germany to China and to what
extent is there a Chinese influence of the management of their German subsidiaries. In this research, it is argued that incorporating Chinese MNEs into the literature and research can enrich the IHRM, international management field, and transfer process work (see for instance Cuervo-Cazurra 2012; Guillén and Garcia-Canal 2009; Hennart 2012; Luo and Tung 2007; Madhok and Keyhani 2012). Although Chinese companies have few international experiences, some make one of their first investment in a developed market economy. How do Chinese companies manage their human resources in Europe to successfully overcome their competitive disadvantages? This new FDI flow provides a stimulating new research setting to test and expand the theoretical work on MNEs.

How are German subsidiaries and their human resource management and employment relations practices affected by their Chinese parent companies?

Many academics highlight the essential role of HRM in the internationalisation process of companies and MNEs success (including Brewster and Scullion 1997; Cooke 2012, Huselid et al. 1997, Scullion and Starkey 2000, Wright and Snell 1998). This research focuses on some areas of the human resource management function in companies. The HR function comprises of different operations including four major HRM areas: 1) reward systems, including compensation and benefits; 2) employee influence mechanisms; 3) job design and work organisation; and 4) employee selection and development. Some HRM practices and policies are affected more than others during the transfer between headquarters and subsidiaries. In more regulated business systems, such as Germany, local regulations may have a high impact on various aspects. This can include work organisation, employee participation and representation, the extent of employees’ benefits, annual paid time off, bonuses, participation in executive decision-making, gender composition of management, and
training (Ferner 1997, Rosenzweig and Nohria 1994). Other HRM practices, such as payment systems, development, and employee communications are generally less likely to be regulated by host country institutions and more likely to be influenced by their parent company’s practices and policies. Other researchers have reported that the influence of host country institutions and parent company is more ambiguous and that some HRM practices are more subject to the host country effect than others (Lu and Björkman 1997; Myloni, Harzing and Mirza 2004). As unique home and host country effects differ according to specific practices (Lu and Björkman 1997; Rosenzweig and Nohria 199; Ferner 1997) this project focuses on examining specific HR and ER practices and policies, namely 1) recruitment and selection, 2) pay and performance, 3) training and development, and 4) employee representation. The former two areas, recruitment and selection and pay and bonuses, are examined because these practices can be more easily transferred to the foreign subsidiaries by headquarters. The latter two are selected because they are highly subject to the influence of the German host country effect. All research questions focus on the above mentioned four HR operations.

Current work on MNEs, including by Björkman and Welch (2015), Geppert and Dörrenbächer (2014), and Hoenen and Kostova (2014), calls for more multi-level studies in IHRM. More particularly, it calls for combining the institutional approach with more actor-centred aspects. How do organisational actors act and use the context to shape their environment in their interest? Other researchers call for more contextualisation (Cooke, Veen and Wood 2017; Delbridge et al. 2011; Sheehan and Sparrow 2012). Following these research calls, this study combines the political economy framework by Edwards and colleagues (2007) with the system, society, dominance and organisational effects (SSDC) framework by Delbridge and colleague
(2011) to analyse the HRM and ER practices of Chinese MNEs in Germany. The political economy framework by Edwards and colleagues (2007) suggests that institutions, markets, and organisations are interrelated, and this kind of context (institutions, markets, and organisations) is utilised by organisational actors as resources to shape organisational practices and policies. The SSDC framework by Delbridge and colleagues (2011) focus on the multi-level approach, system, society, dominance and corporate effects (SSDC) which acknowledges the interrelationship of those effects on IHRM. It also explains the variances of HRM practices in its international context but does not view organisational actors as active players who can exercise their agency to influence organisational developments.

To explore the primary research question, two subquestions are developed to guide this research. The first subquestion aims to understand how the country of origin of Chinese MNEs affects the workplace management in the German subsidiaries. The Chinese context is diverse regarding regions and company ownership types and therefore, the first question focuses on the similarities and differences of Chinese companies investing in Europe and how this affects the workplace management in the German subsidiaries.

The two frameworks were combined to examine how local actors influence the local practices and affect the asset seeking behaviour of their Chinese parent companies. The combined theoretical framework sees individuals as active actors embedded in the organisational and institutional context. The framework views organisational actors as being able to respond to and use the context as a power resource to challenge, negotiate, and change organisational practices. Both management and employees can utilise power resources from their context (including system, institutional, corporate, and market context), to protect and advance their interests. The research focuses on
the interrelationship between society and dominance effects, national institutions, corporate context, and market-driven aspects. An advantage in combining the two frameworks is that the research can be applied to the daily interaction of employees and managers.

This research is especially interested in how the dominance effect affects organisational actors of German subsidiaries owned by Chinese companies. Smith and Meiksins (1995) suggest in their SSD framework that the dominance effect affects the transfer or HRM (best) practices between countries. The dominance effect is a hierarchical order among the national economies, and this creates a dominance effect. Firms from emerging economies (lower in the hierarchical order) may be interested in adopting practices from companies from more successful economies (higher in the hierarchical order). In reverse, actors from companies in successful economies may assume a superiority of their practices and want to transfer those to less dominant host countries (Ferner, Almond and Colling 2005). Likewise, it can be anticipated that managers and employees of subsidiaries in developed economies may believe in maintaining superior managerial and technological expertise compared to firms from emerging economies even if they were bought by emerging economies MNEs. Such beliefs can question the legitimacy and viability of the owners from emerging economies. Several studies report that Chinese MNEs invest in Europe to learn from the developed economies, rather than merely exploit their own company’s capabilities (Jungbluth 2016; Knörich 2010, 2016a). The second subquestion is:

\( a) \)  How does the context of Chinese companies investing into Germany affect the organisational actors and the management of German subsidiaries owned by Chinese companies?
The combined framework by Edwards and colleagues (2007) and Delbridge and colleagues (2011) focuses on how actors embedded in systems, institutions, markets, and organisations mobilise resources to transfer and manage HRM and ER practices within MNEs (Edwards et al. 2007, 2010; Ferner et al. 2012; Quintanilla and Ferner 2003). By combining the two approaches, this framework illustrates the interdependence of systems, markets, institutions, corporations, and (micro-) political processes within MNEs. This framework explicitly stresses that a subsidiary's HRM practices are shaped by actors utilising and mobilising local resources from the institutional environment within and outside MNEs. Subsidiaries are dependent both on their HQ as well as host country which creates an ‘institutional multiplicity'. Although the workforce has limited power due to the system effect, the institutional environment, market pressure, and the organisational context, the internal political processes are crucial in how actors can exercise agency. Edwards and colleagues (2007) mainly focus on how the embedded actors draw on their power resources of the external (institutional and market) environment to negotiate transferred organisational practices from HQ. This combined framework is particularly insightful for the linkages of systems, markets, national institutions, corporate effects, and micro-political processes as well as for how a subsidiary's management can employ the given power resources to manipulate decision-making processes. The political economy approach exposes how actors can utilise the institutional and corporate context to exhibit an influence on decision-making processes.

b) How is the context, consisting of different systems, institutional environments, market conditions, and organisational characteristics, perceived, responded to, and utilised by different organisational actors to shape, negotiate, resist, and implement management practices and policies in Chinese MNEs operating in Germany?
By answering this subquestion, this project not only explores how HRM and ER practices and policies are shaped in the context of Chinese MNEs operating in Europe, but it also gains insight into how organizational actors influence their decision-making process and sense-making process of HRM practices.

This PhD project answers these research questions with a multiple comparative case study to contemplate the role of context in this research on IHRM of Chinese companies operating in Germany. The framework is tested using a multiple case studies design, consisting of six cases on six Chinese MNEs (AutoCo, HeavyCo, CarCo, MedCo, InnoCo, and EnCo) operating in Germany. Interviews were conducted with 41 managers and employees in six Chinese subsidiaries operating in Germany and 12 experts. Given the complexity of the phenomenon being studied, the context and the cases are thickly described. This provides a new empirical context and adds a focus on how the dominance effect affects subsidiaries in successful economies which are owned by companies which are seen as less advanced.

### 1.4 Research contribution

This research attempts to address the lack of knowledge about IHRM of EMNEs by studying six Chinese MNEs investing in Germany. There is still a lack of research about the impact of international activities of companies from emerging countries, such as China, on the international HRM and employment relations of their foreign subsidiaries (Cooke 2012; Cooke and Lin 2012; Zhu, Thomson and De Cieri 2008). The new development of Chinese MNEs investing in Germany and other developed economies is labelled as “upward investment” (Moon 2004) which this research investigated. This research investigated this new direction of investment activities undertaken by Chinese companies to test the combined frameworks of Edwards and
colleagues (2007) and Smith and Meiksins (1995) in a new context. The thesis makes five contributions to the existing literature on IHRM of MNEs.

A first contribution is that several factors levels influence the Chinese management of their German subsidiaries, including - as the combined framework suggests - the system, dominance, institutional, market, and organisational effects and the micro level. The macro effects are used by local actors of the six subsidiaries of this study to initiate change (AutoCo, HeavyCo, CarCo, MedCo, and EnCo) or oppose transfer processes (InnoCo, AutoCo, HeavyCo). This study indicates that multiple levels influence, both macro and micro, the management and HRM practices of German subsidiaries owned by Chinese companies.

A second observation is that this research shows that in majority of the studied Chinese MNEs investing into the German market, the agency of the local organisational actors is of importance. Due to the light-touch approach applied by the Chinese MNEs to the German subsidiaries, their lack of international experience and local knowledge of the German context, the agency of local actors of the studied German subsidiaries becomes crucial in shaping not only the local HR and ER practices and policies but also the general management of the subsidiary. This study demonstrates how the interaction of system, institutions, dominance, market, and organisational effects constitute a distinct context whereupon the capacity to transfer HRM practices from the Chinese headquarters is influenced by the agency of the local actors. The study shows that the constellation of this context enables German actors to be effective in opposing transfer processes of the Chinese parent company.

Different contextual levels not only influence the management of these Chinese subsidiaries operating in Germany, but they are also used as resources by the local organisational actors to influence the decision-making process. Interviewees of the
German subsidiaries tend to recognise the indispensable position or importance of themselves and their respective subsidiary for the Chinese parent company (including market access, local market expertise, technological knowhow, and technology) for the Chinese parent company (AutoCo, HeavyCo, CarCo, MedCo, EnCo, and to a degree InnoCo). This knowledge has led to a greater agency of the local organisational actors of the German actors to demand changes (AutoCo, HeavyCo, MedCo, EnCo and to a degree at InnoCo) or resist transfer processes initiatives from the Chinese parent company (seen in AutoCo, HeavyCo, InnoCo, and EnCo). This indicates that dominance effects seem to strongly influence the agency of local employees working for the German subsidiaries owned by Chinese companies.

A third contribution is that this study shows that the Chinese (upward investment) context and the dominance effect tend to lead to the adoption of a light-touch strategy. The Chinese parent company of AutoCo, HeavyCo, and MedCo apply a light-touch approach not only in the HR management but also the general management and the Chinese SOE owning EnCo restrict the light-touch approach to the HRM work. The German interviewees refer to the lack of international experience of the Chinese owners as the reason why the German subsidiaries enjoy such high autonomy in their management. The light-touch approach seems to be adopted through an interplay of indeed a lack of international experience by the Chinese owners but also the dominance effect of the respective German acquisitions. AutoCo, HeavyCo, and CarCo had advanced expertise and technology in their fields when they were bought and MedCo, InnoCo, and EnCo were founded due to the reputation of Germany in their respective fields. HRM aspects are additionally strongly influenced by the German institutional context. The light-touch approach applied by the Chinese
investors is thus a strategical approach to access knowledge and technology without creating additional resistance through introducing new managerial practice.

A hybrid or light-touch approach seems to be the preferred and most successful approach for these Chinese companies to access expertise and technology of their German subsidiaries studied here. InnoCo does not apply such a light-touch approach and it is unsuccessful in transferring knowledge or technology to its Chinese subsidiaries although this is a clear aim and business model of InnoCo. The light-touch approach in combination with long-term commitment to the German location seems to be promising for these Chinese owners of the studied German subsidiaries to reduce resistance by the local workforce and to gain more easy access to knowledge and technology from their German subsidiaries via Chinese expatriates who then transfer this knowledge to Chinese headquarters. Whether the light-touch approach is an effective approach to transfer knowledge to the headquarters and if so under what conditions does the approach work best has to be further researched.

1.5 Definitions of key issues

This section defines the frequently used terms in this study to ensure a shared understanding of the meaning of the terminology. The subsequent definitions are seen as appropriate for the context of this study.

- **Multinational enterprises** (MNEs) are defined as any companies which “engage in foreign direct investment and own or, in some way, control value-added activities in more than one country” (Dunning and Lundan 2008:3). Other research specifies between international, multinational, transnational and global companies (e.g. Bartlett and Ghoshal 1999). Despite the different terminologies of internationally operating companies, this study uses these
phrases interchangeably. This study does not aim to engage in the theoretical discourse of what defines MNEs. Consequently, the terminology for subsidiaries is also used interchangeably. UNCTAD (2017:3) defines subsidiaries as “an enterprise in the host country in which another entity directly owns more than a half of the shareholder’s voting power, and has the right to appoint or remove a majority of the members of the administrative, management or supervisory body.”

- **(International) Human resource management (HRM):** Minbaeva (2005) views HRM as a set of practices used by an organisation to manage human resources through facilitating the development of competencies that are firm-specific, produce complex social relations, and generate organisational knowledge to sustain competitive advantage. Against this backdrop, it is concluded that IHRM practices relate to specific practices, formal policies, and philosophies that are designed to attract, develop, motivate, and retain the workforce worldwide, who ensure the effective functioning and survival of the multinational enterprise.

- **Industrial relations (IR) or employment relations (ER) are two terms for** “the study of rules governing employment, together with the ways in which the rules are made and changed, interpreted and administered. Put more briefly, it is the study of job regulations” (Clegg 1979:1).

- **Foreign direct investment (FDI) is defined** “as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor” (UNCTAD 2010).
• **Emerging economies (EE):** Although emerging economies is a widely used term, there is no consensus among the existing classifications of emerging countries (for example Hoskisson et al. 2013). Typically, emerging economies are defined as “low-income, rapid-growth countries using economic liberalisation as their primary engine of growth” (Hoskisson et al. 2000:249). The countries enter a catching up game where they have usually started with an undeveloped industrial base and infrastructure. Beside the well-known BRIC countries (Brazil, Russia, India, China and South Africa), other emerging economies include Vietnam, Indonesia, Turkey, Argentina, Mexico and Thailand (Deng 2012; Hennart 2012).

• **Private-owned enterprises (POEs)** are defined here as (Chinese) companies which have non or less than 50% governmental ownership (Broadman 2001).

• **State-owned companies (SOEs)** are defined here as (Chinese) companies having 51% or more government ownership (Broadman 2001).

• **Guanxi** is the interpersonal network between individuals (Tsui, Farh and Xin 2000:225). The professional and private relationships form a network of personal connections that present a form of social currency. Successful guanxi can provide the individual with access to scarce resources and information.

• **Institutions** are defined as guiding the access to essential resources; in particular capital and labour (Hall and Soskice 2001). Hall and Soskice emphasise the social ties and networks characteristics of institutions in their Varieties of Capitalism approach. North (1991:3) defines institutions “as a set of rules, formal or informal, that actors generally follow, whether for normative, cognitive, or material reasons, and organisations as durable entities with formally recognised members, whose rules also contribute to the
institutions of the political economy.” North’s definition acknowledges both the formal and informal rules of institutions.

- **Case study**: Yin (2009:13) defines the case study as “an empirical enquiry that investigates contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident.”

- **Triangulation** refers to a way of combining multiple methods to study a specific phenomenon (Denzin and Lincoln 2005).

### 1.6 Overview of the thesis

The second chapter analyses the literature about the theoretical work on MNEs, discussing different HRM theories and how these apply to the Chinese context. It proceeds as follows: First, an overview of the theoretical work on MNEs is provided, placing it in historical context. Second, the institutional and micro-political approach are discussed - their conception of how institutions and micro-politics influence the management of foreign subsidiaries. Third, the chapter argues that combining the political economy approach by Edwards and colleagues (2007) and the SSDC framework by Delbridge and colleagues (2011) is best suited to gaining more insights in the HR and ER practices of Chinese MNEs operating in Germany.

The third chapter outlines the multiple case study approach, comparing the quantitative and qualitative approach, concluding that conducting interviews in a multiple case study design is the most appropriate approach for the purpose of this study. The section elaborates in detail on the data collection and analysis processes.

The fourth chapter compares the Chinese and German institutional context, focusing on the HRM practices and industrial relations systems. First, the study describes, in
detail, the role of the Chinese government, the differences of ownership types, and the influence of the home provinces and different ownership types in order to understand better the variation of HRM and ER practices and policies among the case subsidiaries of Chinese MNEs. Second, the characteristics of Chinese investments in Europe is described. Third, the German institutional context is considered, describing its characteristics, such as dual representation of the workforce, the long-term outlook of employers for their business and workforce, and what implications it has for the IHRM of Chinese MNEs managing German subsidiaries.

The fifth chapter gives the background for the case subsidiary, namely AutoCo, HeavyCo, CarCo, MedCo, InnoCo, and EnCo by outlining 1) the history of the subsidiary and the parent company, 2) the parent company’s motivation to invest in Germany, 3) the current situation of the subsidiary, and 4) the subsidiary management strategy and control mechanism. The context of the case companies, motivation of the parent company to invest in Germany, and the general managerial approach are compared and classified.

The sixth chapter is a cross-case analysis chapter which focuses on the influence of Chinese companies on their German subsidiaries. The first section discusses the similarities and differences of the HRM and ER practices of the six case studies. The focus is on how the limited influence taken by the Chinese owners affects the HR practices and policies, and the localisation of the HRM practices. This chapter also analyses the politics and dynamics within the case studies. Examining the resources which are used by the actors of the German subsidiaries to advocate their interests, maintaining the majority of local practices and policies, and resist some change efforts by the Chinese owners.
The last chapter summarizes this study. The rapid raise of China and Chinese foreign direct investment in advanced economies has inspired this research to focus on Chinese multinational companies investing in Germany. The multiple case study attempts to give insights how local organisational actors of German subsidiaries owned by Chinese companies tend to have greater autonomy due to the German coordinated market economy and the dominance effect of Germany in relation to the Chinese economy. Chinese companies follow a light-touch approach to gain access to what they consider strategic assets, e.g. knowledge and expertise. The chapter continues discussing theoretical and empirical implications, limitations, ideas for future research, and practical suggestions.
2. Literature Review - The employment management of multinational companies

2.1 Introduction

Human resource management (HRM) has evolved from being seen as a support function to becoming a key strategic mechanism for co-ordination and control of foreign subsidiaries (Bartlett and Ghoshal 1991; Teagarden and Von Glinow 1997). The HRM function can help to shape and oversee the international operations. There is an ongoing discussion in the literature why some multinational enterprises (MNEs) seek to transfer their HRM practices and policies overseas and others do not so (Harzing 2000). One critique is that with the rise of HRM topics in the research agenda, academics increasingly rely on managerialist and economic theories of firms at the cost of the wider assessment of the context of employment relations (Delbridge et al. 2011). Cooke and colleagues (2017), Delbridge and colleagues (2011), and Sheehan and Sparrow (2012) argue that the decontextualization in HRM research has been a growing trend in particular in the study of international human resource management (IHRM) development. IHRM is defined as "the worldwide management of people in the multinational enterprise" (Poole 1990:1). Studies focusing on the workplace management of foreign subsidiaries usually focus on the issue of integration (standardisation) and responsiveness (localisation) of the HRM practices and policies level (Beechler and Yang 1994; Guest and Hoque 1996; Rosenzweig and Nohria 1994). The focus has been predominately on HRM practices and policies and to what extent headquarters transfer their standardised practices or adapt to the local context.
The large and complex body of IHRM literature can be roughly divided into three broad approaches; studies with a focus on organisational aspects, studies with a focus on cultural and institutional features, and studies with a focus on actors’ actions. Studies focusing on the organisational dimension investigating how the design of the company, its production mode, and its organisational development influence the HRM and employment relations (ER) practices and policies in foreign subsidiaries. The contextual perspective, meanwhile, argues that culture, institutions, or industry types determine the HRM and ER practices of MNEs in general and foreign subsidiaries in particular. The contextual approach includes cultural models (e.g. Hofstede’s cultural dimension) and institutional frameworks (e.g. Whitley’s National Business Systems and Soskice and Hall’s Varieties of Capitalism). Finally, the actor-entered approach is used in critical management studies and micro-political accounts to demonstrate how organisational actors induce changes at the HR and ER level within subsidiaries (e.g. Dörrenbächer and Geppert 2006, Ferner et al. 2011; Ferner and Edwards 1995; Tempel et al. 2006). Studies focusing on just one of these analytical levels, be it the organisational, contextual, or agency level, all capture an important aspect of the HRM complexity in multinational enterprises. However, multi-level frameworks seem to offer a more comprehensive understanding of the IHRM issues of multinational companies.

The field has recently called for more multi-level research, particularly incorporating the micro-politics in MNEs (Geppert and Dörrenbächer 2014; Hoenen and Kostova 2014) and the broader context in which MNEs are situated (Cooke et al. 2017; Delbridge et al. 2011; Delbridge and Keenoy 2010; Sheehan and Sparrow 2012). Examples of frameworks combining contextual and actor elements are the work of Kostova and colleagues (1999, 2002, 2008), the so-called neo-institutionalist model
which combines contextual and agency aspects; the framework of Edwards and colleagues (2007) which focus on market, economic, and political aspects; and the work of Smith and Meiksins (1995), combining in their System Society Dominance effects (SSD) framework and the further developed version, the SSDC framework, by Delbridge and colleagues (2011).

This chapter reviews the different levels of analyses of HRM and ER practices and policies within MNEs and foreign subsidiaries. As this research focuses on Chinese multinational companies, it will examine the theoretical work for the extent to which the existing theoretical work on IHRM of MNEs also applies to MNEs from emerging economies. For the organisational level, it discusses the economic and evolutionary approach; for the contextual level, it discusses the institutional theories, and for the micro-political level it reflects on the politics and power perspectives. The analysis focuses on the strengths and weaknesses of each discussed approach and specifically reflects on the extent to which micro-politics are considered. The chapter finishes by reviewing multiple-level frameworks focusing on the HRM and ER of MNEs, including the political economic framework by Edwards and colleagues (2007) and the SSDC framework by Delbridge and colleagues (2011).

2.2 Theories of international human resource management

Organisational level: economic approach

The longstanding research field of multinational companies started to evolve in the 1960s with Hymer’s work (published in 1970) ‘The International Operations of National Firms: A Study of Foreign Direct Investment’. Hymer (1970) broadened the original understanding of foreign direct investment (FDI) from a transferred package with only financial resources to one also including other company resources such as
technology, skills, and knowledge. This transferred package of resources gives the MNE an advantage to domestic companies. MNEs are, however, disadvantaged in the competition with local companies in foreign markets because of their lack of understanding of the local context. In order to be successful overseas, MNEs have to possess a ‘firm-specific advantage’ (Hymer 1970). This transferred package of resources gives the multinational firm an advantage to domestic companies in the host countries. This is labelled as a 'monopolistic advantage' (Kindleberger 1969). The monopolistic advantage can be efficiently utilised when it is replicated. The multinational enterprise gains more decision-power with its greater geographical expansion. The theory assumes that firms internationalise if it is more efficient to ‘internalise’ competencies and competitive advantages than to organise these between agents across borders. In this way companies can take advantage of market failures (e.g. Buckley and Casson 1976; Hennart 1977), and MNEs are ‘internalising’ external markets. Such international expansion behaviour of companies results in replacing the imperfect market with a more efficient one within the organisation (Dunning 2001). Hymer’s initial economic view on multinational companies has been adopted by mainstream economist such as Vernon’s product cycle hypothesis (1966), Dunning’s original eclectic paradigm (1977, 2001), the newer version by Dunning, Kim and Park (2008), and the conventional internationalisation theory (Buckley and Casson 1976; Caves 1996; Rugman 1981). These frameworks assume that company’s resources can be transferred and these transfer processes provide the multinational firm with an advantage in comparison to the domestic companies in host countries.

Turning to the well-known eclectic paradigm by Dunning (1977, 1988, 2001), it identifies three factors impacting firms’ decision-making process on internationalisation: ownership advantage (O), location advantage (L), and
internalisation advantage (I). Ownership advantages are company-specific factors such as capital, technology, and managerial capabilities which can also be utilised competitively overseas. The location advantage refers to the decision to invest in a promising host country from which the company hopes to benefit, for example through its access to local markets, products, or technologies. Dunning emphasises that the internationalisation advantage can be that host countries provide complementary assets to MNEs. The OLI advantages eventually reduce transaction costs for international companies which can operate in a more cost-effective way in comparison to companies relying on market transactions. This framework contributes to the discipline by explaining the reasons for the existence of MNEs, their location decisions, and the advantages which MNEs possess in comparison to domestic companies.

In general terms, the economic approach is powerful, explaining the motivation of companies to go abroad as well as their location decisions. This approach has set up the academic dialogue about multinational companies, but its focus is limited. Its economic assumptions assume that MNEs are rational economic actors who have centralised the power at headquarters to transfer organisational practices and policies across their subsidiaries. This perspective treats MNEs as independent from their context. Organisational actors (of subsidiaries) are perceived as passive and “just” executing headquarters’ decisions. Such a perception does not allow to gain a deeper insight into the decision-making process and power dynamics within MNEs and their foreign subsidiaries. In particular as previous research has already shown that Chinese MNEs use a light-touch approach; the top-down dynamic thus seems less appropriate to explain the management dynamics of German subsidiaries owned by Chinese companies.
Rugman (2010) argues that the firm-specific advantage and country-specific advantage model also account for the behaviour of MNEs from emerging economies (EMNEs). EMNEs indeed rely heavily on their cost advantages and institutional knowledge of investing in similar markets to their own home economies (Narula 2012). These observations support Dunning and colleagues' (2008) argument that the ownership-location-internalisation (short OLI) framework also explains the presence of multinational enterprises from emerging economies (EMNEs). Chinese internationalise because they have the location advantage of their home market deriving from having a cheap and large workforce and the institutional knowledge of similar emerging markets (Dunning et al. 2008). The OLI framework is suitable for explaining EMNEs’ motives to exploit their advantages in other developing countries. However, EMNE’s recent expansion to more developed countries, in particular the increasing mergers and acquisitions in Western nations, poses some challenges to the OLI framework (e.g. Hennart 2012). This approach is therefore ill-suited to study this particular research setting of Chinese companies investing into Germany. The following section outlines the evolutionary perspective developed to understand how companies develop when they internationalise.

**Organisational Level: evolutionary approach**

The evolutionary approach concentrates on the unfolding of organisational structures and strategies incorporating a variety of environmental and organisational contingencies. While the economic approach sees management as a simple one-directional top-down decision-making process, the evolutionary perspective advances its conceptualisation of the company management as a more complex task depending on the stage of development, products, and sector. This approach is represented by the evolutionary models by Stopford and Wells (1972), the Integration-Responsiveness
framework (I-R framework) by Prahalad and Doz (1987), and Bartlett and Ghoshal’s MNEs typology (1999) which are outlined in the following section.

First, Stopford and Wells (1972) develop an evolutionary model with four stages, based on two variables, foreign product diversity and foreign sales, arguing that MNEs adopt different organisational structures at various stages of their international expansion. The four stages are (1) international division, (2) worldwide product division, (3) worldwide area division, and (4) global matrix. The first stage, the international division, is adopted at the beginning of the internationalisation process when both foreign sales and product diversity are limited. As the company grows, by either adding a new product or expanding international sales to new countries, they adopt either a product division (stage 2) or an area division (stage 3). The fourth stage, the last stage, suggests that because of the high complexity of both foreign sales and international diversity, a global matrix structure (stage 4) is suitable. It combines, for instance, production and geographical division so that employees report to two managers instead of one.

Second, the Integration-Responsiveness framework (I-R framework) by Prahalad and Doz (1987) describes the duality of competing pressures on MNEs, to which they have to respond to with either a global integration (e.g. economies of scale, global customers, the presence of global competitors, universal products, homogenous needs, and the technological intensity or a local responsiveness strategy (e.g. local customs, differences in customer needs, distribution differences, demands of host governments, and need for substitutes).

Third, based on the I-R framework, Bartlett and Ghoshal (1999) added a third factor, multinational flexibility which allows the company to manage the risks and opportunities of the global environment. They developed a typology of MNEs
whereby MNEs are categorised into four types, namely (1) multinational, (2) international, (3) global, and (4) transnational companies. First, multinational companies are made up of decentralised structures to enable a high level of local responsiveness. This type is regarded as useful when companies operate in distinctive national markets. Second, international companies combine decentralised and centralised processes whereby HQ leads transfer processes. It allows for a certain degree of autonomy for the subsidiaries. This form is appropriate for companies simultaneously operating in several national markets which are both distinct from and similar to each other. Third, global companies take advantage of economies of scale with their centralised structure. This is best achieved in standardised markets. Fourth, transnational firms are considered most effective by the authors as they accommodate high levels of local responsiveness and global integration. This organisational category can best succeed in actual cross-national knowledge and skills creation.

The three frameworks have in common that, as the company internationalises the management of MNEs are considered to evolve, and with each stage, the organisational ‘mind-set’ prompts different decision-making processes, control systems, and hence corporate patterns. These evolutionary approaches demonstrate the complexity of organisational factors and the geographical challenges companies face when going international. These frameworks contribute to the understanding of MNEs by acknowledging or incorporating the effect of sector and product variation on organisational characteristics, managerial practices, and policies in MNEs.

This stream adds that industries play a role in MNEs shaping the HRM practices and policies of their internationals businesses. Bartlett and Ghoshal (1989) and Porter (1990) distinguished between industries where local conditions are key and industries where scale economies are predominant and national differences are only sparsely
considered. The former is typically for the service sector, such as life insurance and retailing, and the latter is typically the manufacturing sector such as the automobile sector. The distinction can have consequences for their transfer (Bartlett and Ghoshal 1999; Ferner 1997; Rosenzweig and Nohria 1994; Taylor, Beechler and Napier 1996; Whitley 2001).

However, the evolutionary approach has several limitations in general and for studying the research setting of Chinese MNEs investing in Germany in particular. The first weakness of this evolutionary approach is this literature implies a potential ‘duality’ of the localisation or standardisation of practices. This either-or choice does not necessarily reflect the management reality. Although this approach focuses on alignment-seeking behaviour, struggle and competition are more typical for the management in MNEs (e.g. Birkenshaw 1996; Birkinshaw and Ridderstrale 1999; Edwards and Belanger 2009; Kristensen and Zeitlin 2005). The evolutionary approach thus overlooks the potential influence of organisational actors and the political processes within organisations. More particularly, it fails to account for a subsidiary’s ability to adjust and create its employment practices independently from the HQ. The work of Gamble (2010), for instance, shows how Chinese subsidiaries of a Japanese retailer developed hybridised practices. In other words, the degree of standardisation and localisation of practices can vary among subsidiaries of the same HQ.

Drawing on the evolutionary approach and combining it with the power approach, Birkinshaw (1996) and colleagues argue that managerial power is based on the ability to control critical resources. One example is provided in Birkinshaw and Ridderstrale’s (1999) study, examining 26 subsidiaries’ initiatives. The authors demonstrate that the companywide success of subsidiaries’ initiatives depends on the degree of internal resistance from the headquarters and other subsidiaries. Managers
can circumvent such internal resistance and legitimise new initiatives and practices by attracting outside partners and market acceptance. This strategy increased their chances to succeed with their initiative company-wide. Another example is provided by Bouquet and Birkinshaw (2008), who aim to understand the reasons for the difference of subsidiaries’ influence within a multinational company, despite their similar power positions. The findings indicate that subsidiaries with a lower degree of power can actively attract HQ’s attention through feedback seeking or issue framing. Although this approach does politicise transfer processes, the ability of actors to shape the transfer process is downplayed which makes it unable to adequately account for the internal actor-level processes taking place inside MNEs. This project moves away from the conception that subsidiaries are restricted to the subordinate role of the HQ’s strategy. Instead, the understanding is that a subsidiary’s managers and employees can influence the development of employment practices within the given organisational and institutional context and within the parent company.

A second weakness of the evolutionary approach lies in its notion that MNEs tend to internationalise incrementally. This assumption is undermined by the case of firms from emerging economies which tend to internationalise very rapidly rather than incrementally (Luo and Tung 2007). Chinese MNEs, in particular, tend to invest in developed countries to gain competitive advantages by acquiring strategic assets (Deng 2007; Jungbluth 2016; Knörich 2010; Rui and Yip 2008) and closing the capability gap with MNEs from developed economies (DMNEs) (Deng 2012; Guillén and García-Canal 2009; Hennart 2012; Madhok and Keyhani 2012). The internationalisation patterns of EMNEs are unusual in comparison to MNEs from developed markets (DMNEs) because there is a shift from a step-by-step approach to a more risk-taking and aggressive form such as direct acquisitions and setting up
wholly owned subsidiaries in developed markets. The reason for this is that emerging economies multinational enterprises intend to catch up with their competitors, and the internationalisation process of multinationals from emerging economies is therefore different from multinational originating from developed economies (e.g. Luo and Rui 2009, Mathews 2006, Yiu, Lau and Bruton 2007). Whereas MNEs from the Unites States (US), Japan, and Western Europe have traditionally first developed firm-specific advantages in the home country, MNEs from emerging economies tend not to follow the same internationalisation process. In response, new theoretical frameworks have emerged explaining the EMNEs’ behaviour.

The literature has started to integrate new types of MNEs in the theoretical work. One of the first studies is by Doz, Santos, and Williamson (2001) who develop the concept of ‘metanational companies’. They argue that younger MNEs are born in the wrong place, meaning that these companies are initially operating in countries which are not market leaders or do not have excellent centres in their field, and yet, become successful companies; so-called metanational companies. These are defined as companies which “will focus on prospecting for untapped pockets of knowledge around the world. They will build new types of advantage by connecting and leveraging dispersed pockets of knowledge.” (Doz et al. 2001:4). Arguing that specialised knowledge is spread across countries, the authors stress that each location has a potential unique contribution to the company’s operation. To thrive as a company, the headquarters has to utilise local knowledge by developing a common strategy but denationalised its implementation. The MNE’s units have to learn, and centres have to combine the experience in order to become a thriving metanational company. This theory assumes that the new knowledge economy has different demands on companies, in which competitive advantages are primarily based on
knowledge and skills and thus derive from combining dispersed expertise and capabilities. Successful companies thus tap, mobilise, and operationalise globally dispersed knowledge rather than exploiting the existing company’s competitive advantage (Doz et al. 2001). Although this theory was not based on EMNEs it is also relatable to MNEs from emerging economies.

Luo and Tung (2007) apply Doz and colleagues’ (2001) theoretical work to the specific context of EMNEs and develop the ‘spring-boarding’ concept. Emerging market MNEs can systematically and recursively utilise their foreign subsidiaries as a ‘springboard’ to find and mobilise critical resources. These resources can be operationalised to gain an advantage at home and abroad (Luo and Tang 2007:484). The systematic character of ‘spring-boarding’ is reflected in that this is a long-term designed strategy. It aims to find and mobilise the subsidiaries’ existing resources and knowledge to compensate for the MNEs’ latecomer disadvantage in brand recognition, technological knowledge, and managerial expertise. The 'spring-boarding' perspective assumes that (reverse) transfer processes become an essential skill for EMNEs to survive and advance.

Focusing in particular on Asian MNEs, Mathews (2006) develops the linkage, leverage, and learning (LLL) framework. Mathews (2006) argues that Asian MNEs apply a linkage strategy (such as joint ventures and collaborative agreements) to create learning opportunities. Linkages refers to the utilisation of going abroad. Newcomers take advantage of going abroad by connecting their international activities and exploit the overseas resources (leverage). Learning refers to the repeated use of linkage and leverage processes to increase the own performance and to become more economically efficient. This strategy explains the rapid internationalisation of Asian MNEs. However, this LLL framework does not explain how EMNEs learn from their
linkage strategy while competing against DMNEs (Hennart 2012). In addition, it simply assumes that the EMNEs have the capacity to exploit and utilise the acquired overseas resources. Similar to the economic approach, the evolutionary approach does not incorporate the interdependence between MNEs and their embedded institutions. The following section discusses the institutional theories.

**Contextual level: institutional theory**

The institutional theory contributes to the understanding of management and work organisation by taking into consideration the institutional environment of MNEs. DiMaggio and Powell (1983), Tolbert and Zucker (1983), and Meyer and Scott (1983) broke from traditional assumptions of organisational research by investigating factors from the broader social and cultural environment affecting organisational structures and economic efficiency. The perspective has evolved from the field of macrosociology, social history, and cultural studies (DiMaggio and Powell 1983) and since the 1970s, the new institutional theory attempted to link the institutional argument to the practices and structure of organisations (Scott 1995). National institutions shape the business environment, including product, labour, and financial markets and create a unique institutional environment. Institutional theories focus on the extent to which organisations conform to the external institutional environment and examine how organisational survival is not only determined by business and technical elements (such as technical efficiency and resource dependencies) but also by (local) social elements - the institutional environment (Kostova et al. 2008; Meyer and Rowan 1977). Multinational companies are thus shaped by the ‘national logics’ of their country of origin (Morgan 2001). Such national differences were applied to recognise not only home country effects on MNEs but also the need to adapt to the institutional
distinctiveness of the host countries. The behaviour of MNEs and their subsidiaries are thus perceived to interact with the country-of-origin and country-of-operation.

In contrast to the above mentioned evolutionary and economic approaches, institutional theories analyse the social embeddedness of organisations. The environment shapes and the context constrains the rationality within the MNE (Geppert and Dörrenbächer 2014). Institutional ideas can be divided into two main approaches. The first is based on neo-institutionalist ideas from North America and represented by scholars such as Westney (1993) and Kostova and colleagues (e.g. Kostova 1999; Kostova and Roth 2002; Kostova et al. 2008; Kostova and Zaheer 1999). The second approach is based on European comparative institutionalist ideas such as ‘Varieties of Capitalism’ by Soskice and Hall (2001) and ‘National Business Systems’ by Whitley (1992). The following section outlines the two approaches in more depth.

*Neo-institutionalism perspective*

The North American neo-institutionalist perspective conceptualises the institutional environment as exerting institutional pressure to which actors must comply. By conforming to national preferences, companies accept the national law, rules, or regulations. They are rewarded for their adaptation with access to resources, gaining legitimacy, and increasing their survival ability (Scott 1987). In other words, multinational organisations not only conform to efficiency demands but also to the isomorphic pressures of the host environment (DiMaggio and Powell 1983; Tempel and Walgenbach 2007). An organisational field is defined by DiMaggio and Powell (1983:148) as “*those organizations that, in aggregate, constitute a recognised area of institutional life: key suppliers, resources and product consumers, regulatory agencies and other organisation that produce similar services or products. The virtue*
of this unit of analysis is that it directs our attention not simply to competing firms (…), or to networks of organizations that actually interact, (…), but to the totality of relevant actors.” The pressure exerted on companies by the organisational field can lead to organisations adopting similar practices and structures (DiMaggio and Powell 1983; Meyer and Rowan 1977; Zucker 1977). DiMaggio and Powell (1983:149) define the isomorphic process as “a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions.” The central concept of isomorphism in new institutional theory works through three mechanisms: coercive, mimetic, and normative isomorphism (DiMaggio and Powell 1983). The state exerts coercive pressure due to its centralised position of formulating and directing rules. Professions can apply normative pressure which implies weaker rules and is more decentralised. Finally, mimetic isomorphism occurs when organisations experience instability or insecurity and imitate the ‘best practices’ of successful companies (DiMaggio and Powell 1983). These three mechanisms lead organisations to resemble each other (defined as companies having similar or even the same structural characteristics in one economy). From this logic, neo-institutionalists conclude that companies are having similar or even the same structural components when they operate in the same organisational field.

New institutionalist research on MNEs has mainly focused on transfer processes, adaption and institutionalisation processes (Kostova 1999; Kostova and Zaheer 1999; Kostova and Roth 2002). The transfer process in MNEs makes visible the complex isomorphic pressure both from the host institutional environment and the intra-organisational institutional environment in which MNEs operate (see for instance Gooderham, Nordhaug and Ringdal 1998; Kostova and Roth 2002, Rosenzweig and Nohria 1994). Kostova and Zaheer (1999) label this as institutional duality. In contrast
to the CC literature, new institutionalism argues that MNEs imitate practices not because they are nested in their institutional environment, but instead practices are promoted by dominant models. This helps to legitimise their operations and ensures their survival in the future (Geppert and Dörrenbächer 2014). The higher the degree of institutional distance between the HQ and its foreign subsidiaries, the more likely the chance that problems can occur in achieving external legitimacy in the host country and ‘internalisation’ of transferred practices (Kostova 1999). Although neo-institutionalism does consider ‘institutional duality’ of MNEs, this approach does not explain how this multi-contextuality unfolds at the micro level within MNEs.

In addition, Kostova, Roth, and Dacin (2008:998) reflect that other neo-institutional concepts, such as organisational field, isomorphism, decoupling, and legitimacy, have also limited validity in the case of MNEs and require modification. For example, the authors question to what extent organisational fields are useful and applicable in the MNE context because MNEs subunits “face multiple, fragmented, nested, or often conflicting institutional environments.” Kostova and colleagues (2008) and also Ferner and colleagues (2004) argue for a greater focus on organisational actors. As these global companies experience an institutional multiplicity, a plurality of practices and activities exist, leaving (key) actors with multiple possible (strategic) choices (Kostova et al. 2008). Because multinational companies are situated among multiple and ambiguous organisational fields, the absence of one coherent organisational field for MNEs creates different pressures to adapt to various structures and practices. Thus, we might expect reduced isomorphic pressure for MNEs resulting, in more agency for actors in MNEs.

This neo-institutional approach has several weaknesses with regards to the actor level in general and the research context of this study, China’s institutional environment, in
particular. First, Ferner, Edwards, and Tempel (2012), for example, criticise neo-institutionalist for neglecting ‘old institutionalist’ questions about power and interests. Similar to Kostova and colleagues (2008) they argue that ‘institutional duality’ and ‘institutional distance’ do not consider actors’ ability to act in the interest of their or the MNE’s needs, to shape transfer processes within the organisation.

Second, the regulative component of the neo-institutionalist framework reflects the existing laws and rules of a nation. China’s regulative component is problematic. Although it has strong laws and regulations, the internationalisation and implementation of the legal framework are not always given. Weak enforcement and political power undermine its legal framework. For instance, China’s employment laws are the strictest worldwide (OECD 2018) but China is infamous for its sweatshop and poor labour conditions. The Chinese regulative level is thus difficult to comprehend.

Third, although neo-institutionalism takes into account global networks, (such as professional networks) which can exert normative pressure, global economic and political influences are not addressed directly in this approach. But this research aims to include these dynamics in the analysis of the HRM and ER practices and policies of Chinese companies operating in Germany. The following section turns to the comparative capitalism approach.

*Comparative capitalism perspective*

The comparative capitalism (CC) theories seek to characterise and grasp the complexity of the different national business systems in which MNEs operate. This approach highlights how each national business system forms a unique business and market context. Different institutional environments have different impact on
organisational structures, strategies, and the employment management of local firms (Ferner 1997; Whitley 1992). National institutions are interrelated within one another, often complementary, and give rise to specific configurations of capitalism or other economic systems (Jackson and Deeg 2008). Companies are embedded in their local institutional environment (Granovetter 1985) in which any changes tend to be path dependent processes (Arthur 1989).

This comparative institutional approach is diverse and derives from different disciplines, including economics (Aoki 2001; North 1990), sociology (Powell and DiMaggio 1991; Streeck and Thelen 2005), and political science (Immergut 1998; Thelen 1999). In this context, it is not surprising, that the meaning of institutions varies (Jackson and Deeg 2008). Institutions can be defined as guiding the access to essential resources; in particular capital and labour (Hall and Soskize 2001). Theoretical approaches tend to be eclectic in the institutional field.

MNEs face different challenges adapting to the institutional diversity across regions and countries (Jackson and Deeg 2008). On the one hand, the practices, strategies, and capabilities of MNEs are shaped by their home country and on the other hand their international subsidiaries operate in different host countries which have their unique institutional context. This perspective offers insights into how the institutional environment of the home country encourages distinctive management and employment practices of local MNEs and how the host countries offer constrains and resources to foreign MNEs (Edwards and Kuruvilla 2005).

The comparative capitalism approach contributes to recognising non-market forms of coordination in the business systems. It conceptualises that each business system consists of a unique set of institutions with distinct strengths and weaknesses for different kinds of economic activities (Jackson and Deeg 2008). Prominent
representatives for this perspective are the ‘Varieties of Capitalism’ (VoC) model by Hall and Soskice (2001) and the ‘National Business System’ (NBS) model by Whitley (1999).

The VoC literature analyses the institutional structure of political economies. To what extent does the national context provide "firms with advantages for engaging in specific kinds of activities" (Hall and Soskice 2001:32). Whereby the framework divides economies into two main economic categories, namely in coordinated market economies (CMEs) and liberal market economies (LMEs). CMEs, such as Germany and Japan, coordinate business activities by not relying solely upon markets, but also on some non-market relationships such as industry associations and labour unions. LMEs, such as the UK and the US, allow the market to coordinate the organisation of economic activities. Hall and Soskice (2001) argue that each economy has been developing reciprocal institutions which creates the rules for the national market as well as comparative institutional advantages.

The second model, ‘National Business System’ by Whitley (1999) focuses on how economic success is achieved in different societies and how different institutional environments create a unique environment for business structures and practices. The institutional theorists (such as Hall and Soskice 2001, Whitley 1999) have contributed that different societal or institutional systems mostly constitute unique national organisational practices and policies. This results in persistent national characteristics, including distinct employment relations and also management practices (Hall and Soskice 2001). This perspective stresses the historical development of national institutions which shape MNEs’ behaviours; such as internationalisation strategies (Harzing and Sorge 2003), employment practices (e.g. Almond and Ferner 2006; Edwards and Ferner 2002; Ferner 2000; Tempel and Walgenbach 2007), shareholder
value pressures (Morgan and Kristensen 2006), control forms of HQs over subsidiaries (e.g. Harzing and Sorge 2003), and power and authority distribution within MNEs (Whitley 2009). Ferner (1997), for instance, reviews the MNEs literature and concludes that nationality of ownership significantly determines MNEs practices, leading to a country-of-origin effect. The country-of-origin manifests itself especially in HR aspects such as payment systems, management development, and employee communication.

The comparative capitalism perspective has several weaknesses in general and with regard to this research setting in particular. First, the framework also presents a duality of subsidiaries either adapting to the practices of the host country they operate in or following the practices and policies of their parent company’s home country. This approach does not account for a greater diversity of practices within subsidiaries such as the ‘hybridisation’ of practices (Elger and Smith 2005; Gamble 2010). These studies have little interest in that actors within MNEs can manoeuvre and shape their context towards their interests (Geppert and Dörrenbächer 2014). Humans are perceived as static in this approach; interests and identities are reified as elements ingrained into the national business system, and the dynamic nature of politics is overlooked and thus hybrid practices are not acknowledged in this approach. The account for individual aspects is, however, critical and not integrated in this approach.

Second, institutional studies tend to fail to account for home country effects of MNEs from emerging economies, including China. Both NBS and VoC mainly focus on Western economies in North America and Western Europe. The VoC framework however does include Japan. China, as later describes in chapter four, is heterogeneous in relations to its regions, urban, and rural class system, and generations (Gamble 2010). Dörrenbächer (2003:154), for instance, highlights that
comparative institutional approaches rarely consider the possible heterogeneity of home-country influences as well as the impact of third-country influences on the organisational constitution. Recent studies on Chinese MNEs are mixed regarding the home country effect. Zhu, Zhu and De Cieri (2014) observe an implicit home country effect in several host countries, especially in the HRM system, because the case companies failed “to recognise the strategic importance of HRM (...) and only considered HR issues after the investment deal was sealed.” (p.957). Zhang and Edwards (2007), meanwhile, report that Chinese financial companies in the UK localise their HRM system. The weakness of the comparative institutionalism is that it does not consider the possible multi-contextual constitution of MNEs. Child and Marinova (2014) point out that the home and host country context, especially for Chinese MNEs, should be contextualised to better understand the implications for Chinese enterprises investing in foreign economies. EMNEs encourage the testing and rethinking of current frameworks of MNEs, the knowledge of the internationalisation process of different kinds of firms. EMNEs thus offer an opportunity to expand the theoretical work of MNEs. The next section focuses on the micro-political approach and how organisational actors influence the HR and ER practices and policies in overseas subsidiaries.

**Micro-political approach**

A more recent research stream of IHRM focuses on the micro-political concept (e.g. Ferner et al. 2004; Morgan 2001; Morgan and Kristensen 2006). The previously discussed literature paid little attention to politics and power in MNEs and if it did, it was viewed as static. There is a tendency to treat ‘the organisation’ as a unitary agent. Morgan and Kristensen (2006), for instance, depict the MNEs as a ‘battlefield’ where organisational practices and policies are negotiated, resisted, and adapted by actors
mobilising the subsidiary’s power capabilities against the HQ. The evolvement of HRM and ER practices underlie the interests and rationales of the organisational actors (Ferner 2000, Ferner and Edwards 1995). Dörrenbächer and Geppert (2006) explain that micro-politics within MNEs consist of contested processes and conflicts in which organisational actors execute their influence to secure options and actualise their interest. This approach, thus, perceives organisational actors as having a greater role in the organisational processes compared to the previous discussed theoretical approaches.

The actor-centred approach considers politics and power as a significant factor in MNEs processes (e.g. Morgan 2001; Dörrenbächer and Geppert 2006, 2010, 2014; Kristensen and Zeitlin 2005; Morgan and Kristensen 2006). Dörrenbächer and Geppert (2006:261) define micro-politics “as an attempt to exert a formative influence on social structures and human relations.” These scholars argue that the interactions among individual actors determine the MNEs processes and outcomes, in particular individual interests, power sources, and scope of actions (Clark and Geppert 2011). Micro-politics and power are unavoidable in MNEs and for example Edwards and Belanger (2009) understand MNEs as ‘contested terrains’ and Kristensen and Zeitlin (2005) as ‘battlefields’. These labels point to the human nature of large corporations and their effect on organisational processes.

In contrast to the majority of MNEs studies, this analytical approach has a tradition especially in the study of employment relations (Edwards and Belanger 2009) whereby the management of the organisation is seen to contain a political nature. Critical events within MNEs, such as mandate changes, subsidiaries' initiative-taking (e.g. Dörrenbächer and Geppert 2009, 2010) or the transfer of HR and employment practices within MNEs (e.g. Ferner et al. 2005) can result in changes of the established
rules within organisations. While HQ usually hold the formal authority to set rules and to control their units, subsidiaries do not necessarily play by headquarters' rules and meet the given performance targets. Key organizational actors can mobilize their internal and external resources to resist changes (Vaara et al. 2005). Studies highlight how transfer processes in particular can cause struggles and challenges interest groups within organisations. The human site of organisations creates a more dynamic environment.

A weakness to this approach is that every single action by each organisational actor can be seen as a political activity. Although the micro-political approach avoids being too deterministic, it can understate the market, institutional, and organisational influences. Furthermore, this approach lacks an explanation of the way organisational actors gain access to power and how markets, institutions, and corporate structures influence such game-playing. This focus avoids the determinism of the previous approaches and highlights the role of individuals and groups within MNEs. A weakness of this approach is that it lacks to account for contextual constraints of HRM and ER practices such as the national and organisational context.

**IHRM and Chinese MNEs**

Reviewing the literature on IHRM of Chinese MNE, 26 articles were found. The majority of studies developed eclectic frameworks, typically combining institutional theory (Akorsu and Cooke 2011; Child and Marinova 2014; Cooke 2012, 2014; Cooke and Lin 2012; Shen 2004a, 2004b; Wu and Lee 2001; Zhang 2003; Zhang and Edwards 2007; Zhu 2015; Zhu et al. 2014) or cultural approaches (Bunchapattanasakda and Wong 2010; Busch et al. 2013; Jackson 2014; Shen and Edwards 2006; Spigarelli, Alon and Mucelli 2013; Xing et al. 2016) with other
theories. For instance, the research by Fan and colleagues (2016), about how Chinese MNEs are engaged in localised learning in Australia, draws on both institutional theory and dynamics capability theory. Zhang and Edwards (2007) study the diffusion of ‘best practices’ in Chinese MNEs in the UK and draw on an eclectic framework with institutional, cultural, structural, and political elements. However, the current literature on Chinese MNEs and their IHRM strategies and policies tends to engage neither with micro-political approaches nor with global political and economic dynamics.

**Summary of the reviewed theoretical perspectives and IHRM**

This section reviews various approaches to studying MNEs. The economic approach focuses on the organisational level, including the company, its organisational heritage as the primary factor shaping organisational practices, and implicit market conditions but neglects other influences such as the stage of the company’s internationalisation process, cultural and national influences, and micro-politics. The economic and evolutionary approach overestimate the MNEs' abilities to transfer and implement ideas of ‘best practices’ and policies. The institutional approach can partially account for the Chinese HRM and ER practices but fails to grasp the complexity of China’s cultural and institutional environment and its recent rapid cultural and institutional changes (Edwards and Kuruvilla 2005; Gamble 2010). Except for the micro-political account, the above reviewed approaches have a homogenised, and over-deterministic understanding of HRM and ER practices in MNEs. These ignore the human side of an MNE’s organisational life. The micro-political perspective acknowledges the role of organisational actors and their different interests, yet it fails to account for structural influences. The economic, evolutionary, cultural, and micro-political approaches can overlook the extent to which the host country can influence the transfer of MNEs’
HRM practices to overseas subsidiaries. Each of the reviewed approaches focus on certain aspects of MNEs and highlight certain dynamics.

MNEs operate in various economies and they are thus subjective to various institutional environments. This causes diverse pressures on MNEs to adapt to certain structures and practices. Ferner and colleagues (2005) as well as Kostova, Roth, and Dacin (2008) argue for a greater focus on power and politics within MNEs because the institutional multiplicity of MNEs creates a plurality of practices and activities and thus (key) actors have (strategic) choices (Kostova et al. 2008). Institutional multiplicity for multinational companies implies that they have multiple and ambiguous organisational fields. This thus leads to less or at least mixed isomorphic pressure for MNEs (although MNEs have to comply with laws and regulations - coercive pressure) and more choices for actors in MNEs.

Through the multiplicity of the organisational field, the argument of legitimation also becomes problematic for MNEs. Legitimation implies that MNEs require approval by their organisational field to ensure survival. MNEs become therefore “complex internal environments, with spatial, cultural, and organisational distance, language barriers, inter-unit power struggles and possible inconsistencies and conflict among the interest, values, practices and routines used in various parts of organisations” (Kostova et al. 2008:997). MNEs have to generally ensure that they become accepted by several organisational fields and they thus become complex and political.

MNEs are a politically contested multilevel sphere, in which actors “must make sense, manipulate and negotiate” (Kostova et al. 2008:1001). MNE as such provide fertile grounds for interest and power struggles at individual and group level. The actor-centred institutionalism approach stresses the importance of actors (see for instance Delmestri 2009; Friedland and Alford 1991; Seo and Creed 2002). Actors are no
longer seen as passive and conforming (Beckert 1999; DiMaggio and Powell 1983; Hirsch and Lounsbury 1997) but receive a more active and reflective role. Therefore, this research supports the integration of multiple-level analysis for examining HRM and ER practices of Chinese companies operating in Germany. The following section investigates at how the various level of analysis can be integrated into a multi-level framework to study HRM and ER practices in MNEs.
2.3 Theoretical framework

From the review of the literature it can be concluded that different approaches of analysis provide different insights into the assessment of international human resource management and employment relations practices and policies. Used individually they offer only a partial picture. For example, in a detailed case study of Japanese multinational retail firms with subsidiaries in China and Japan, Gamble (2010) concludes that transferring HRM practices is a complex pattern shaped by highly selective adoption, transfer, and local adaptation processes and the theoretical approaches can provide individually only a limited explanation to the transfer processes of HRM practices in MNEs. In line with Gamble (2010), several authors suggest that different economic, institutional, and micro-political factors create complex combinations of HRM and ER practices and policies, patterns of transfer, and negotiation processes and call for multilevel research (Björkman and Welch 2015; Deng 2013; Edwards and Rees 2006; Edwards and Tempel 2010; Edwards, Jalette and Tregaskis 2012; Ferner et al. 2004; Gamble 2010; Geppert and Dörrenbacher 2014; Kostova and Hoenen 2014). A multi-level analysis incorporating the role of actors and context seems most appropriate to gain a better understanding of the managerial processes in Chinese MNEs investing in Germany.

There are several recent calls to combine different levels of analysis in order to gain more insights into managerial practices of MNEs. First, there are calls to integrate the individual level in a multi-level approach (e.g. Ferner et al. 2004; Deng 2013). For example, Geppert and Dörrenbacher (2014) focus on the micro-political approach whereby they assume that “power is the result of continuously socially constructed dynamic relationships among key actors, who make use of existing power resources and, in doing so, stabilize and destabilize established power structures” (p.237). The
authors call for more research examining the interplay between the internal micro-political processes (game-playing) and the organizational and societal structures because existing HRM research in MNEs tend to neglect the individual level and fail to account for power dynamics such as how organisational actors actively manoeuvre HR and ER practices and policies. Therefore, they call for research that combines the individual with the contextual level.

Second, Björkman and Welch (2015) systematically reviewed the IHRM field and focused on the MNE context, headquarters’ level, and subsidiary level. They note that a multilevel analysis should acknowledge the reciprocal influence between the organizational context and the level of action of organizational actors. In addition, they point out that the global and home country factors influencing policies and practices in MNEs have been rarely studied and Björkman and Welch (2015) thus call for more research focusing on both the individual level and the organisational context.

A third call derives from the neo-institutionalist. Kostova and Hoenen (2014) characterise the HQ-subsidiary relationship as the HQ being the principal which delegates authority to its subsidiaries, being thus the agents. The HQ is limited in its power to observe its subsidiaries and how they exercise the delegated power. Often headquarters and subsidiaries have divergent interests resulting in subsidiaries or headquarters not behaving in the other’s best interest. The national context affects the power resources of agents in both headquarters and subsidiaries. More specific national institutions and cultural values influence actors and their relations with each other as the context shapes the cognitions, understandings, values, and leeway of action of actors (e.g. Fidrmuc and Jacob 2010; Salter and Sharp 2001). To further advance the understanding of relationships between HQ and its subsidiaries, Kostova and Hoenen (2014) propose to include the agency theory in the research agenda on
MNEs as organisational actors of MNEs are embedded in multiple social contexts (Kostova and Zaheer 1999; Meyer Mudambi and Narula 2011).

This present study responds to the calls by Geppert and Dörrenbächer (2014), Ferner and colleagues (2004), Björkman and Welch (2015) and Kostova and Hoenen (2014), performing a multi-level analysis of the IHRM practices and policies of Chinese MNEs operating in Germany. Combining the contextual level with an actor-centred approach seems promising as this allows this research to gain more insights in the transfer of HRM and ER practices in multinational companies in general.

The current body of research on IHRM of MNEs and foreign subsidiaries is incomplete for the following reasons. First, the majority of studies focus primarily on MNEs from Western economies, investing in other developed or developing countries (Almond et al. 2003; Edwards 1998; Edwards and Ferner 2004; Ferner and Edwards 1995; Ferner and Quintanilla 1998; Ferner and Varul 1999; Gamble 2003). While the appearance of MNEs from emerging countries has been noted (Agmon and Kindleberger 1977; Heenan and Keegan 1979; Kumar and McLeod 1981; O’Brien 1980; Wells 1983), few studies have been published on MNEs from emerging countries. Second, recent economic and political developments, most notably the rise of several emerging economies – such as the BRICs - together with a decline in economic and political power of the West have given Chinese and other emerging economies’ MNEs the opportunity to increasingly invest not only into other developing economies but also into Western economies. Such new investment flows from economically less successful countries to economically more successful ones are labelled as 'upward investment' (Moon 2004; Moon and Yim 2014). This phenomenon is relatively unfamiliar to the research landscape of IHRM in MNEs and it offers the
opportunity to include a new phenomenon and contextual level to the study of HRM and ER practices.

A suitable framework for this research has to address thus several issues. First, the framework should address the interrelationships between organisational actors and the MNEs’ organisational context and national institutional environment (Björkman and Welch 2015; Deng 2013; Edwards and Tempel 2010; Edwards, Jalette and Tregaskis 2012; Gamble 2010; Geppert and Dörrenbacher 2014; Kostova and Hoenen 2014). A fruitful framework has to account for the interaction of top-down processes at international and national levels and the bottom-up processes of organisational individuals who make sense of, negotiate, and influence the decision-making processes on HRM policies and practices.

A second criterion is that a suitable framework has to conceptualise organisational actors not just as embedded in an institutional setting, but also possessing agency. This is particular important for the case of MNE of emerging economies investing in Europe. Chinese companies investing in Germany also seek to overcome firm-specific weaknesses by acquiring strategic assets in Germany (Jungbluth 2016; Knörich 2010, 2012; Luo and Tung 2007; Zheng et al. 2016). Such motivation aiming to transfer assets and knowledge to the Chinese parent company requires a long-term effort involving positive and effective management of the German subsidiaries and focuses on the collaboration with local actors to access knowledge and expertise.

Third, accounting for this research context of German subsidiaries owned by Chinese companies specifically a theoretical framework also has to account for another element, namely the influence of the country of origin and how this affects the organisational and political dynamics within and outside the corporation. This is important because until recently, FDI was largely an activity reserved for MNEs from
countries that were already developed, and their investment flows were unidirectional, from more to equal or less advanced economies. Development in poorer economies, such as China, was also associated with the inflow of productive capital, technologies, and economic activity from advanced-economy MNEs, rather than with any form of capital outflow. The country of origin effect concerns mainly MNEs from China and other emerging economies because of the perceived weaknesses and the lack of the global economic success (Thite et al. 2012). This is likely to provoke new internal dynamics in Chinese subsidiaries operating in Germany.

Two prominent frameworks have connected different level of analysis to understand the HRM and ER practices and policies of MNEs and these are interesting for this research project, namely the system, society, dominance, and corporate effect (SSDC) framework by Smith and Meiksins (1995) and Delbridge and colleagues (2011) and the political economy approach by Edwards, Colling, and Ferner (2007). The following section reviews these two frameworks with the above developed criteria. Both frameworks have their shortcomings for this research project and therefore a combination of these frameworks is developed for this research.

**The system, society, dominance, and corporate effects (SSDC) framework**

The system society, dominance, and corporate effects (SSDC) framework by Delbridge and colleagues (2011), a further development of the SSD framework by Smith and Meiksins (1995), suggests that workplace management is shaped by a four-way interaction, focusing on the effects of system, society, dominance, and corporation. These four effects explain how companies and their management practices are influenced in the context of social relations within firms.
First, the system effect refers to the economic system in which nations operate. In other words, how the economic system influences the mode of production and work relations within a national economy. In the case of Germany, the economy relies on a capitalistic system, while the economy of China is labelled as ‘capitalism with Chinese characteristics’ and the Chinese communist party insists that its country does not follow a capitalist but rather communist ideology. This becomes evident in the active involvement of China's national and local governments in the economic and managerial affairs of companies.

Second, the society effect compromises the pattern and structures which distinct countries from each other. It has an observable effect on the organisation of work and management. It refers to the role of institutions, norms, and values which impact organisations and workplace management. The system effect does constrain the society effect. Germany, for instance, is seen as a coordinated market economy in which institutional actors (employers, employees, and the state) coordinate their actions with each other. A distinct example for the German market is the function of collective agreements which are binding to all employees and employers in the collective bargaining sector and serves as a regulation within the German context. China’s society effect is not easily described with a label (more details in chapter 4) but one clear example of the society is the role of the China’s communist party (CCP). China has a one-party system in which the CCP elects the government. An organ of the CCP is the trade union which transmits the party’s views into Chinese corporations. The Chinese economy is primarily politically-driven as the government shapes, controls, and steers through its intervention the market. There are thus also two different society effects present in Germany and China.
Third, the dominance effect refers to the fact that economies compete in a hierarchical ensemble which has an impact on the diffusion of ‘best practices’. This third effect describes the phenomenon of how successful companies or national sectors become influential within their field. Other companies (from other nations) imitate successful companies and thus adopt the ‘best practices’ of their respective industry leaders. A typical example, for instance, is the Japanese lean production techniques which was so successful that it was adopted by companies from other economies in the automobile sector (Elger and Smith 2005). The dominance effect can constrain the society effect. For instance, Chinese companies have adopted some Western HR practices (Warner 2003) which derive from different institutional settings compared to the Chinese one. These practices were adopted by Chinese companies and thus the dominance effect constrains to a degree the society effect in China.

Fourth, Delbridge and colleagues (2011) extend the framework with the ‘corporate effect’ which refers to the significance of parent companies influencing the HRM practices of their subsidiaries. This last effect highlights the influence of the parent company on the HRM and ER practices of subsidiaries in general and how subsidiaries can negotiate HQ’s influence (Delbridge et al. 2011:485). The specific role of the subsidiaries for HQs influences the extent to which the parent company can control practices at the workplace level and employment relations.

To sum up, the SSDC framework depicts HRM and ER practices as being shaped through system, society, dominance, and corporate effects, guided by the prevalent idea of ‘best practices’ across sectors and nations. This extended SSDC framework links the analyses on nations, markets, and social networks with corporate dynamics, thus offering an approach through which employment practices can be analysed and the mechanisms behind the social structure can be identified.
The main advantage of the SSDC framework is that it connects the national level, namely the society effect, with a global level, namely dominance effect. Such a global perspective is neglected in the political economy framework by Edwards and colleagues (2007) (discussed in the next section). The system and dominance effects of this framework are not easily distinguished (Edwards et al. 2013). For example, a common pattern of managerial practices can look like a system effect but it could also be the result of the dominance effect, through the adoption of ‘best practices’. In the case of China, for instance, it is often observed that it experienced a system shift whereby the former communist workplace management practices are phased out (e.g. life-long employment, seniority-based promotion) and are replaced by current practices which are diffused through Western MNEs operating in China (Ding and Warner 2001). Does this case of Western HR practices and policies in China present a case of widespread adoption of ‘best practices’ or is it a changing system effect or is it both?

Additionally, the framework mentions indeed actors as in that the four effects interact within social relations of the firm. Smith (2005:620) emphasises that “internationalised workplaces condense the effects of globalising capitalist forces, national institutional rules, and world best practice work and employment standards within local and unique work situations … [but] it is only through social interaction that groups and individuals negotiate which of these divergent (and perhaps competing) ways of working … will shape particular work situations.” How these social interactions influence practices and policies remains unclear. It is mentioned that “the social agents within firms are differentially exposed to those pressures (the competing influences of the SSD effects)” (Smith and Meiksins 1995:262). Although the social interaction of individuals is stressed in the SSDC framework, it is not
explained how the social interactions between organisational actors are influenced. In addition, the SSDC description of organisational actors restricts employees and managers to a passive role within firms. Organisational actors are passive in that they are exposed but the framework does not give insights how the effects are played out. The notion that actors can use the environment and the effects to shape decisions and organisational practices is not discussed and from the author’s perspective not implied in the work. The framework lacks to include the micro level of organisations. Morgan and Kristensen (2006), for instance, point out that micro politics and political games influence the decision-making process and the interpretation, adaption, and internalisation of organisational practices. The authors do suggest a political nature of the four effects at the actor level, but this is not sufficient to capture the micro political level.

Third, with regard to the changing global economic and political dynamics the SSDC framework does acknowledge different system effects. The framework allows to incorporate the effect that China’s economy operates under a different system than for instance Germany. This double hurdle is a disadvantage for Chinese MNEs because, Chinese companies are perceived as weak and lacking global dominance in terms of ‘best practices’ in Western European countries (Jungbluth 2016). Other researchers such as Ferner, Almond and Colling (2005) and Ferner and colleagues (2012) argue that this double hurdle affects, in particular, the transfer process of ‘best practices’ from MNEs of emerging MNEs to their subsidiaries in developed countries.

This framework accounts for the double hurdle (namely the liability of foreignness and country of origin) which Chinese MNEs face while investing in Germany. The society effect acknowledges the first hurdle, the liability of foreignness of MNEs which is unavoidable for any foreign company investing in a new market, the
dominance and system effects acknowledge the second hurdle. Chinese MNEs encounter the hurdle of country-of-origin in developed countries and this may affect their competitiveness (see for instance Thite et al. 2012). The SSDC framework assumes that 'dominant' societies are deemed to represent 'modernity', and act as a measure of progress and development. While China has reached a dominant economic position within the current global economy system, it is not (yet) regarded to represent 'modernity'. This contradicts Smith and Meiksins’ argument. China’s development has not (yet) translated to a dominant position of providing best managerial practices. Instead, Chinese MNEs adopt ‘best practices’ from abroad in China and from their foreign subsidiaries operating in developed economies (Zhang and Edwards 2007; Cooke 2009, 2012). The framework thus accounts not for micro political dynamics and has difficulties to incorporate China as a successful emerging economy which has not (yet) gained a reputation of its managerial practices.

The political economy approach

The second multi-level framework is the ‘political economy approach’ by Edwards and colleagues (2007). This framework focuses on how actors embedded in institutions mobilise resources to transfer and manage HRM and ER practices within MNEs (Edwards et al. 2007, 2011; Ferner et al. 2012; Quintanilla and Ferner 2003). By combining the market-based, cross-national comparative, and micro-political approach, this framework illustrates the interdependence of markets, institutions, and (micro-) political processes within MNEs. This framework is based on a case study of a US multinational's subsidiary operating in the UK. Edwards and colleagues (2007) report how the pay and performance, diversity, teamwork, and employee representation policies of an US engineering MNE are shaped by the host environment, the company’s tradition, and market pressure.
The fundamental idea of the market-based perspective is the notion that market pressures influence the HRM and ER practices and policies of MNEs and their foreign subsidiaries. Companies develop and absorb competitive advantages, including ‘best practices’, organisational structures, and processes which they transfer to their subsidiaries with the hope to benefit from them across the border (Taylor et al. 1996).

The comparative institutionalist perspective highlights the influence of the local institutional environments on organisational structures, strategies, and the HR and ER practices of local firms (Ferner 1997; Whitley 1992). MNEs face different challenges adapting to the institutional diversity across regions and countries (Jackson and Deeg 2008). On the one hand, the practices, strategies, and capabilities of MNEs are shaped by their home country and on the other hand by the different institutional context MNEs operate in. This perspective offers insights into how the institutional environment of the home country encourages distinctive management and employment practices of local MNEs and how host countries offer constrains and resources to MNEs aiming to transfer their HR and ER practices (Edwards and Kuruvilla 2005).

In comparison to the SSDC framework, this approach explicitly stresses that workplace practices are shaped by subsidiary’s actors utilising and mobilising their available resources. Edwards and colleagues (2007) focus on how the actors embedded in their context draw on their available power resources of the external (institutional and market) environment to negotiate the extent to which organisational practices are transferred from the HQ. Although the local workforces of foreign subsidiaries have limited power due to market pressure and the institutional environment, the internal political processes are crucial in how actors can exercise agency. This framework is particularly insightful for the linkages of markets, national
institutions, and micro-political processes as well as how subsidiaries can employ the given power resources to manipulate decision-making processes affecting their practices.

Assessing the political economy approach with the above-mentioned criteria, this framework acknowledges the interconnectedness and the negotiation process of practices. By combining the market-based, the cross-national comparative, and the micro-political approach, this framework illustrates the interdependence of markets, institutions, and (micro-) political processes within MNEs. It can however only indirectly account for the different economic systems by looking at the institutional and market level.

Second, compared to the SSDC framework the political economy framework perceives the organisational actors in a more active role. Organisational actors of MNEs can utilise the institutional and organisational resources to actively shape decision-making processes and organisational practices in their interest. It clearly depicts the active role of individuals in the process of shaping HRM and ER practices and policies in foreign subsidiaries. These negotiations within MNEs are essentially political processes which organisational actors can shape through their distinct interests by drawing on resources from the institutional and corporate environment. Depending on the context, subsidiary actors can be more or less powerful in influencing the local workplace practice and policies.

Third, this approach has difficulties to capture the changing role of China within the global economic and political context. The phenomenon of China’s rise and the decrease of the power of the Western world is a process which is not easily grasped in this framework. The uncertainties and possibilities which arise with the increasing
power of China and decreasing power of the Western world offer an exciting moment to further develop the theoretical work on HRM and ER practices of MNEs.

Both reviewed multi-level frameworks have strengths and weaknesses. A combination of the political economy approach by Edwards and colleagues (2007) and SSDC framework by Delbridge and colleagues (2011) is regarded to suit best this particular research context because a combination of these two frameworks acknowledges the interconnectedness of the different levels and the agency of organisational actors within German subsidiaries owned by Chinese companies which enable this research to analyse negotiation processes of employment practices.

**A combined multi-level framework**

Research focusing on the HRM and ER practices of MNEs has often focused on Western businesses investing in equal or less developed economies but the literature on IHRM, including this political economic approach and the SSDC framework, tend to neglect the investments from emerging and developing economies to developed economies. This is not surprising because until recently the world’s political and economic system was governed by the ‘West’. The recent economic successes of the BRICS countries in general and China in particular indicate a global change in the global economic dynamics. This research focuses on Chinese upward investment, analysing the effects on the workplace management in German subsidiaries.

The vast majority of Chinese companies only recently started investing abroad and thus these companies have few international experiences and they are latecomers to the global market. By investing abroad, they aim to find and mobilise their overseas subsidiaries’ existing resources and knowledge to compensate for their latecomer disadvantages, including brand recognition, technological knowledge, and managerial
expertise. Examples of Chinese acquisitions of Western brands such as Midea acquiring Kuka, are unique in such that companies internationalise not anymore to utilise only their competitive advantages, but to overcome their competitive disadvantages, secure new assets, and create new competitive advantages (Knörich 2010, 2016; UNCTAD 2006). Several studies have identified asset seeking as a key driver of Chinese MNEs to invest in developed economies (Ash 2008; Child and Rodrigues 2005; Deng 2007, 2008; Rui and Yip 2008; Zhan 1995; Yang 2005; Young et al. 1996;). This motivation to access expertise and knowledge from developed economies has been used recently to explain the increasing Chinese investments in more advanced economies such as Germany (Knörich 2010, 2016).

Regarding the country or origin effect, it is a greater concern for MNEs from emerging economies because of the perceived weaknesses and the lack of the global economic success (Thite et al. 2012). Some managers and employees of Chinese subsidiaries in European countries believe that they possess superior managerial and technical expertise to that of their Chinese headquarter, and as a result question the legitimacy and viability of the Chinese managers. Indeed, the more common view has been that the Chinese economy and its firms continue to exhibit numerous weaknesses, with OFDI often driven by the desire to overcome these weaknesses (Ash 2008; Child and Rodrigues 2005; Deng 2007, 2008; Knörich 2010, 2012; Von Zedtwitz 2005; Yang 2005; Young et al. 1996). Reference is often made to the lack of within-firm strategic resources, especially technologies, know-how, and brands (Wu 2005; Deng 2008). Some Chinese firms are considered ‘multinationals without advantages’ (Fosfuri and Motta 1999:617), or at least do not exhibit the same type of firm-specific capabilities, focused on technological, managerial or marketing superiority, that have been typical for MNEs from advanced economies (Guillén and García-Canal 2009).
In order to understand this new context of Chinese MNEs consisting of upward investment, lacking typical competitive advantages, and seeking new assets in advanced economies this study aims to move beyond the analysis of the national and market environment and to integrate also the system and corporation. Acknowledging the above-mentioned studies and calls for research this study perceives organisational actors as possessing agency and the ability to influence decision-making and transfer processes. How influential local organisational actors can be to prevent, or initiate change depends on their agency, function within the company, the subsidiaries' role within the MNE, the institutional and the wider societal context. Actors are, thus, nested in their context and can draw power resources from their environment to shape to a certain degree their given environment in their interests. This study combines the SSDC by Delbridge and colleagues (2011) and Smith and Meiksins (1995) and the political economy approach by Edwards and colleagues (2007) in the following way.

The clear advantage of the political economy approach is that it allows to focus on the role of organisational actors. These actors can indeed draw resources from the institutional and market context. Not only the institutional and market context can function as power resources but also the corporate environment (such as the role of the subsidiary in the MNE) which Delbridge and colleagues (2011) suggested. Further, the hierarchy of economies can create a dominance effect whereby especially the parent company can have an advantage to transfer more easily its practices to its subsidiaries operating in less successful economies. The question is how does the dominance effect influence subsidiaries from more successful economies, like Germany which are owned by Chinese companies? Germany is successful in exporting machineries and other industrial products, and its engineering work is recognised worldwide. This is also reflected, for instance, in the attempts by several
economies, such as Slovakia, Portugal, and Latvia, to transfer the vocational training system from Germany (BMBF 2018). While China has become economically successful during the last four decades - being the second largest economy in terms of nominal GDP - the question has this Chinese success translated into Chinese companies being globally recognised for their best management practices? The dominance effect is thus relevant for both the German subsidiaries and the Chinese headquarters but in different ways. Some studies have indicated that Chinese MNEs aim to acquire knowledge, practices, and technology from the German market (e.g. Jungbluth 2016; Knörich 2010, 2016a). The case of China as being the home country of MNEs is unique because the country follows a ‘social market economy with Chinese characteristics’. This makes the system effect especially relevant for this research setting. Therefore, this study argues that organisational actors embedded in the organisational, institutional, (global) market, and system context can draw power resources from the system, dominance, market, institutions, and corporation context. The dominance effect is implicitly located in the global market in that within the global market where a hierarchy of economies can develop. So more successful companies can possess a dominance effect in their particular sector.

Figure 2.1 Combination of SSDC and political economy framework
This project frames the research through a combination of the political economy approach by Edwards and colleagues (2007) and the SSDC framework by Delbridge and colleagues (2011) – investigating the ways in which the upward investment of Chinese MNEs influences the micro politics and workplace management practices and policies in their German subsidiaries. The micro-political level focuses on how organisational actors protect or advance their own interests, use the resources they have, and deal with conflicts. (Edwards et al. 2007). In addition, the research aims to develop a deeper understanding of the country of origin effect in order to understand how and to what extent the workplace policies and practices are implemented and opposed by local organisational actors in the German subsidiaries.

By combining the SSDC framework of Delbridge and colleagues (2011) and Smith and Meiksins (1995) and the political economy approach by Edwards and colleagues (2007), this research aims to offer a rich understanding of how the system, institutional, dominance, market, and organisational level influence Chinese MNEs and the organisational actors of its German subsidiaries to shape local HR and ER practices and policies.

This PhD project explores thus the following central research question:

*How are German subsidiaries and their human resource management and employment relations practices affected by their Chinese parent companies?*

To explore this primary research question, several subquestions are developed. The suggested framework conceptualises that organisational actors can utilise the societal, market, institutional, and corporate context as power resources. The institutional approach considers that the process of social meaning legitimises many national systems, practices, and policies in organisations (Tempel and Walgenbach 2007). The
comparative capitalism stream examines the interaction of home and host country effects, including the country's formal (e.g. political, economic and legal system) and informal (socio-cultural) institutions. The extent to which MNEs can introduce its ‘best practices’ is limited to the institutional environment of the country of operation. Therefore, this study will assess the institutional and societal context of China and Germany to gain insights into what kind of power resources the German and Chinese context offer to the local organisational actors of Chinese companies operating in Germany.

Beside the institutional level, Smith and Meiksins (1995) focus on the system effect which refers to the economic system in which nations operate. In other words, how systems affect the mode of production and work relations within a national economy.

In the case of Germany, the economy relies on a capitalistic system while the economy of China is labelled as ‘social market economy with Chinese characteristics’ and the Chinese communist party insists that its country follows not a capitalist but a communist ideology. This becomes evident in the active involvement of the national and local government in the economic and managerial affairs of companies. Chinese companies derive from a mixed communist and capitalist system compared to the Western European countries with their liberal market economies and less influential national governments on the economy.

As China’s institutional environment and system differ to that in Germany, it is helpful to assess the institutional and societal differences between China and Germany. Existing institutional theories tend to adopt the notion that institutions are rather homogeneous. As argued above, China has, however, a heterogeneous institutional field with many differences between the provinces and ownership types of companies.
For instance, labour movement and labour rights differ between China’s provinces due to differences in law enforcement practices.

Not only institutions but the market context can affect the bargaining positions of MNEs and their organisational actors. There are some examples of how the global market influences HRM and ER practices and policies (e.g. Aguzzoli and Geary 2014;). For instance, Geary and Aguzzoli (2014) and Geary, Aguzzoli, and Lengler (2017) describe how ‘best practices’ were transferred by a Brazilian MNE to its Canadian subsidiary to the surprise of the local actors in Canada. Due to the depressed global nickel price at that time and many companies leaving the Canadian mining sector, the Brazilian investment was welcomed to provide jobs in Canada and thus this particular Brazilian MNE had a strong power position from the start in Canada. After the acquisition, the Brazilian company aimed to introduce a new performance-based payment scheme which was related to workers’ performance. The local workforce and trade union unsuccessfully resisted this change. Because the Canadian economy was dependent on foreign investors, politicians did not support the local workforce. This weakened the power resources of the local workforce and strengthened the power position of the Brazilian company. The case of this study indicates that the agency of the actors of the local government and the Brazilian MNE adapted to the market context. On the one hand, the local government in Canada adapted its behaviour to the lack of power resources due to the weak nickel market. The weak nickel market enabled the Brazilian MNE to introduce a new salary system even though the local workforce opposed this transfer of ‘best practices’.

Traditionally, Canadian mining companies might have been regarded as more dominant compared to Brazilian ones. Due to the changing market conditions, this dominance effect has changed.
Smith and Meiksins (1995) suggest that among national markets a hierarchical order exists which creates a dominance effect and can affect the transfer or HRM (best) practices between countries. Firms from emerging economies (lower in the hierarchical order) may be interested in adopting practices from companies from more successful economies (higher in the hierarchical order). (This was not the case in the case study of Aguzzoli and Geary (2014). In reverse, companies in successful economies may assume a superiority of their practices and want to transfer those to less dominant host countries (Ferner, Almond and Colling 2005). Likewise, it can be anticipated that managers and employees of subsidiaries in developed economies may believe in maintaining superior managerial and technological expertise compared to firms from emerging economies. Such conviction about companies from emerging economies can question the legitimacy and viability of owners from emerging economies. Several studies report that Chinese MNEs invest in Europe to learn from the developed economies, rather than merely exploit their own company’s capabilities (Knörich 2012; Jungbluth 2016). If Chinese companies aim to access knowledge and expertise of their German subsidiaries, the relationship to the local workforce is essential (see Brewster and Scullion 1997; Cooke 2012, Huselid1997, Scullion and Starkey 2000, Wright and Snell 1998). With the increase of Chinese investment in developed economies, the following questions aims to explore the new phenomena of Chinese upward investment in Germany:

a) How does the context of Chinese companies investing into Germany influence the organisational actors and the management of German subsidiaries owned by Chinese companies?

The suggested framework sees individuals as active actors embedded in the organisational and institutional context. The framework frames organisational actors as being able to respond to and use the context as power resources to challenge,
negotiate, and change organisational practices transferred from the parent company. Both management and employees might have different institutional and organisational power resources, but both groups can utilise those to protect and advance their interests. Both the actors of subsidiaries and parent companies experience an increase or constraint of their bargaining resources due to varying power resources provided by their context. This study is interested in:

b) *How is the context, consisting of different systems, institutional environments, market conditions, and organisational characteristics utilised by different organisational actors to shape, negotiate, resist, and implement management practices and policies in Chinese MNEs operating in Germany?*

### 2.4 Conclusion

This chapter has reviewed the literature on international human resource management of multinational enterprises, focusing on the economic approach, the evolutionary approach, the institutional approach, and the micro-political approach. The chapter argued that a multi-level framework is best suited for studying Chinese MNEs investing in Germany and for that purpose it has reviewed the SSDC framework by Smith and Meiksins (1995) and Delbridge and colleagues (2011) and the political economic framework by Edwards and colleagues (2007). The reviewed frameworks do not fulfil the requirements of 1) acknowledging both the top-down and bottom-up processes of organisational actors; 2) conceptualising organisational actors not just as embedded in the setting, but also possessing agency; 3) accounting for institutional dynamics. In comparison to the SSDC framework, the political economy approach allows for a clearer focus on the agency of organisational actors at the micro-level and the SSDC framework established well the macro conditions in which the workplace of MNEs exist but it lacks to integrate well the agency of organisational actors. This
research thus adopts the combined political economic framework by Edwards and colleagues (2007) and the SSDC framework by Delbridge and colleagues (2011) as a theoretical approach where the emphasis is placed on seeking an understanding of the interrelationships between markets, systems, institutions, and the interests of the various organisational actors.

To unravel the combined effects of varying market, system, and institutional influences, derived from distinctive home and host countries, the analysis of Chinese companies investing in Germany requires meticulous case descriptions. The framework demonstrates how organisational actors utilise the societal, market, institutional, and organisational context to transfer, shape, resist, and negotiate HR and ER practices and policies at the workplace level. The following chapters focus on how organisational actors in the German subsidiaries of Chinese companies use the context to negotiate transfer processes to and from their subsidiary.

The present PhD project aims to focus especially on the country of origin effect and how this effect the German subsidiaries owned by Chinese companies and how organisational actors, including subsidiary managers, along with employees, and middle managers, make sense of this new situation. Chinese MNEs provide an interesting research subject to expand this framework to a new context. China has a mixture of unique institutional context, including ownership-types, regional diversity, and, while economically successful, its international management practices are, until now, limited (e.g. Cooke 2012; Fan et al. 2013; Zhang and Edwards 2007; Zhang et al. 2014; Zhang and Fan 2004; Zhu 2015).

To understand the influence of Chinese companies on their German subsidiaries, the analysis will first focus on the global economic and political, institutional, and market context and then on the organisational context. The actual HR and ER practices and
policies of the German subsidiaries are examined, focusing on pay and performance, development and training, and recruiting and selection. The last part of the analysis assesses how local actors of the case studies respond to their context and shape the HR and ER practices and policies. The following chapter explains the methodology of this research before turning to the analysis. From a methodological perspective, the study reveals ‘insider’ views’ of managing German subsidiaries owned by Chinese companies, and therefore a multiple case study research design is adopted.
3. Research methodology

The preceding chapter argues for a multi-level approach to understand the construction and development of management policies, practices, and workplace relations in German subsidiaries of Chinese MNEs. The research objective is to link the actions and strategies of organisational actors at the workplace level with the influence of the societal, institutional, market, and corporate level. In other words, individuals are nested within subsidiaries which are nested within inter-organisational relationships which are nested within industries and national economies, and which are nested in the international political and economic dynamics. This chapter discusses the methodological concerns for this study. It does so in four sections. The first section outlines the proposed research goals. The second section discusses the comparative multiple case study design. The third part elaborates on the data collection process and reports the interview process. The final section details the data analysis.

3.1 Research goals

This project aims to contribute to the current literature in three ways. First, the academic literature on MNEs and human resource management is dominated by a focus on Western companies and Western understandings, values and norms (e.g. Tung 2007). Recently, a greater diversity of international companies has emerged (e.g. companies from the BRICS countries). It is essential to understand the country of origin effect as such new cases offer alternative ways of addressing management issues and new contexts for analysing micro-politics. Therefore, one goal of this research is to add an original context to the academic literature.

Second, the majority of management theories has not been tested in the Chinese context and this study uses this unfamiliar context to test the proposed research
framework. This research will incorporate the context of Chinese MNEs affects in the analysis of the data (Child and Marinova 2014; Harzing and Pudelko 2016).

Third, this case study focuses in particular on the micro level and its nestedness in the system, dominance, institutional, market, and organisation context. To explore the extent to which organisational actors of German subsidiaries differ in their interaction with their context, this multiple case study aims to interview employees and managers about their workplace experience and understanding of the Chinese management.

The research questions focus on the context that affects the international human resource management (IHRM) and employment relations in Chinese subsidiaries in Germany. This research topic focuses on multiple level of analysis whereby the contextualisation of the research is seen as essential. International researchers, including Boyacigiller and Adler (1991), Kim, Wright and Su (2010), and Tsui (2007), argue that for a meaningful development of theories, researchers should contextualise their theory development and application to novel contexts. To gain some deeper insights into the influence of the context on the HR and ER practices and policies of German subsidiaries owned by Chinese MNEs, a multiple case study is considered appropriate to capture this phenomenon. A multiple case study design enables the researcher to conduct multiple experiments applying ‘replication' logic (Yin 2009), to contain the problem of representation and to bring together the analytical results in a robust way. In particular qualitative data, including interviews, documents analysis, and observation, offer the opportunity to gain more in-depth insights, and test the political economy framework by Edwards and colleagues (2007) in the specific context of Chinese companies operating in Germany. A multiple case study design was followed to gain a better understanding of the context and the complexity of the
HRM processes of Chinese subsidiaries in Germany and to find out to what extent Chinese companies differ in their management of German subsidiaries.

3.2 Research method

While a study with quantitative methods allow the researcher to find patterns and make generalisation, applying a quantitative method to the Chinese multinational companies’ context has also several disadvantages. First, there is limited research conducted on international management practices of Chinese MNEs in general given their short history of internationalisation, and there is limited data and restricted access on Chinese MNEs in particular to base this research only on quantitative analysis.

Second, the reliability of existing official statistics about China are often assessed critical and regarded as questionable and of low quality because the data collection is impeded by China’s fast economic transition, political incentives to falsify data, and shifting interests within China (Holz 2004). The existing databases produce different figures for Chinese FDI due to different methodologies and this limits any quantitative analysis on the behaviour of Chinese MNEs investing abroad.

Third, a survey method approaching Chinese companies might be less reliable due to varying inclinations through different nationalities to respond to surveys (answering either extreme or non-extreme to self-report measures) (Smith 2004). This would make distort a comparison of the answer among Chinese and non-Chinese managers in Chinese subsidiaries operating in Germany. In addition, Chinese companies are not necessarily open to research (e.g. Peng et al. 2001; Cooke 2009). Using a generic survey would risk having a very low response rate.

Fourth and most important, the mere use of quantitative data is insufficient to gain a deeper understanding of the development of HRM and ER practices and the factors
influencing them. Quantitative data allows us to observe the empirical domain but does not offer us a deeper understanding of the actions taken by organisational actors and insights into how they use the available resources to influence decision-making. To gain such insight and understand individual actors and their strategies in the companies would be difficult if only using surveys and existing databases on Chinese OFDI. Interviews are therefore seen as a more appropriate option for this research, to gain insights in the micro processes of German subsidiaries owned by Chinese companies.

Management research studying complex phenomena usually focus on the top management perspective. Conducting only interviews with managers would show one side of the research topic and be limited to the managerial perspective of work-related practices and policies. The purpose of this study is to expand the perspective to the experience of employees. In addition, naturally occurring data such as observations and documents are included in this research. The reasons to combine interviews, observations, company documents, and media reports is to achieve data triangulation – combining two (or more) sources of data to study the phenomenon in order to gain a more complete understanding of it (Denzin and Lincoln 2005). While this data triangulation approach is limited, it is applied to increase the credibility and validity of the research findings.

3.2.1 Case study research design

To investigate the research questions, a comparative multiple case study method is followed to understand the practices and the agency of organisational actors in Chinese subsidiaries operating in Germany. Yin (2009:13), a well-known case study researcher, defines the case study as "an empirical enquiry that investigates
contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not evident." Case studies can benefit from the prior development of theoretical propositions to guide that data collection and analysis (Yin 2009:14). This project expands the political economy approach by Edwards and colleagues (2007) to non-Western companies who recently internationalised and to the context of the global political and economic dynamics. Yin (2009) argues that case studies are best suited to answer how and why questions. “This is because such questions deal with operational links needing to be traced over time, rather than mere frequency or incidence” (Yin 2009:6). Six German subsidiaries of Chinese companies are selected. The reasons for selecting a multiple case study methodology are threefold.

First, a qualitative case study design is selected because this allows for a deeper understanding of the micro-politics of the everyday workplace activities of the German subsidiaries of Chinese MNEs. In particular in the field of IHRM and MNEs, the interplay between the different institutional environments, market context, organisational environment, and micro-politics is in the research spotlight (for instance Quintanilla and Ferner 2003; Kostova, Marano, and Tallman 2016). The multiple perspectives on the organisational practices and policies and socially constructed truths shape and create a great complexity of HR and ER practices in foreign subsidiaries. This study expands the SSDC and political economy framework by combining them and by applying them in a Chinese, non-Western, context. A crucial aspect of studying such a complex phenomenon is to develop an in-depth understanding of the context. A multiple case studies design with six case subsidiaries has the potential to provide a rich, in-depth account of Chinese management practices in their German subsidiaries displaying the context, multi-dimensionality, and
complexity (Mason 2017). This research design provides the opportunity to embrace
the full variety of the context and see how the organisational actors interact with the
context to shape HR practices and policies (Siggelkow 2007; Welch et al. 2011; Yin
2009). Multiple case studies allow inspecting shared patterns from distinctively
different cases, including Chinese MNEs with varying destinations, industries,
ownership types, sizes, and international experiences (Patton 2002). The six case
studies allow for a better understanding of these interacting levels from the two
frameworks in this new context.

Second, the nature of this PhD project is to analyse the actions of organisational actors
in Chinese companies. This research is interested in the details of the situations and
to understand more of the reality behind the observable (Remenyi et al. 1998:35). Case
research allows the researcher to examine the complexity of the factors of HR and ER
practices and policies of Chinese investments in Germany from multiple sources. Case
studies allow a research process of iterative–parallel research (Verschuren 2003) and
thus a flexibility which is not shared by other methods such as a survey design. This
flexibility of the case study methodology thus allows us to study the HR and ER
practices in-depth and to gain a close and detailed view of the social phenomenon in
a limited number of cases. To do so, the case study design is not limited to one method
or specific technique, and thus it is compatible to data triangulation. This research
design allows for the inclusion of interviews with a variety of organisational actors
and experts of the field, and for the inclusion of organisational documents, media
reports and observations.

Third, a case study allows the flexibility in selecting a small number of cases.
Hammersley (1992:185) distinguishes case studies from other methods, such as
experiments and surveys, because case studies are limited to a small number of units
in naturally occurring settings and these units are investigated in considerable depth. Justifying with her experience, Eisenhardt (1989:545) suggests that “while there is no ideal number of cases, a number between 4 and 10 cases will usually work out well. With fewer than 4 cases, it is often difficult to generate theory with much complexity, and its empirical grounding is likely to be unconvincing.” Although a single case study is likely to provide an adequate understanding of the phenomenon, a multiple case study with a small number of cases increases the theoretical generalisability and applicability of the findings (Blaikie 2012). A study with more than one case is considered as being more robust and strengthening the reliability of findings (Kitay and Callus 1998; Yin 2009). As the research of HRM practices and transfer processes is complex (e.g. Gamble 2010, Aguzzoli and Geary 2014, Morgan and Kristensen 2006), six case companies are seen as a solid number for this study to gain insight in the similarities and differences of the cases. Because an already further developed theoretical framework is tested, a multiple case study design is selected with heterogeneous cases (from different Chinese provinces, entry mode, ownership type, and industries) to test theories in order to indicate that theoretical principles hold across cases (Eckstein 2000; Yin 2009). The degree of theoretical application is thus broader compared to a typical case selection.

A case study research methodology is not without flaws. First, the rigour of this method is frequently questioned (Yin 2009). To enhance the credibility, multiple sources of evidence and data collection methods are included (Yin 2009). The primary data will be derived from personal semi-structured interviews with managers, employees' representatives, employees, and consultants. Multiple informants in each case increases the credibility and reliability of the data (Yin 2009). The interviews are complemented by company documents, participant observations, companies'
websites, and newspaper articles to gain a better understanding of the cases and their background. Also, the research actions, such as interviews and observations, are recorded, and a database of the case studies is built up. Combining different data sources (triangulation) enhances credibility, trustworthiness, and authenticity of the results (Yilmaz 2013; Yin 2009). This study collects data from interviews with managers, works council members, and employees from other departments, and media reports, organisational documents, interviews with consultants, and attending events to enhance the findings credibility, trustworthiness, and authenticity. This allows more insights into the organisational and decision-making processes and allow us to cross-check data from multiple interviews (Altrichter et al. 2008, O'Donoghue and Punch 2003). Gathering data from various sources, including interviews with different individuals, observations, media reports, and organisational document, is thus an attempt to gain a better understanding of the complexity of the organisational processes in the subsidiaries of this study.

Second, the criticism is that case studies rely too much on a few respondents. This proposed research project aims to reduce this by interviewing different managers and employees (Mason 2017). Triangulation can also minimise the risk of research and interview bias. The research bias and interview bias are typical for case studies (Yin 2009). The risk of the researcher's view modifying the research (findings), is not only present in case studies but in many other methodology types. The interview bias entails that the informant "will be tempered and limited by the positions they hold" (Kitay and Callus 1998:106). Therefore, this PhD project also conducts interviews with several organisational actors from the cases, including managers, employees, and works council members.
Third, the potential difficulty is to generalise the findings beyond the specific conditions of the small-number problem with case studies (Yin 2009). Stake (2005:460) argues that "the purpose of a case study is not to represent the world, but to represent the case. The utility of case study research to practitioners and policymakers is in this extension of experience." Generalising from theories is accepted as a benefit of case study research (Eisenhardt 1989, Kitay and Callus 1998, Yin 2009). The following results of this research project do not represent all Chinese companies. Instead, these capture the phenomenon, explore in-depth insights, and develop context-specific theories to the management practices of Chinese subsidiaries in Germany.

A fourth criticism concerns the difficulty of conducting case studies due to logistics and operational efforts (Yin 2009). Indeed, gaining access to Chinese companies proved to be complicated and time intensive. Therefore, this research has limited the focus to Chinese companies in Germany.

A fifth criticism is that researchers are biased, and qualitative research lacks rigour in the data analysis (Yin 2009). To reduce the researcher' bias and increase academic rigour, the interview schedule (see appendix three) and case studies' results were discussed with the supervisor team who has performed similar studies on other countries and other academics in the field of HRM.

To conclude, this study applies a multiple case study design with six Chinese subsidiaries operating in Germany. The main units of analysis are the HRM and ER practices and policies of German subsidiaries owned by Chinese MNEs which is a complex research object. The advantage of the multiple case study design is that it allows an in-depth understanding of the complexity of the phenomenon and studying it with different data sources (triangulation), including interviewing different
organisational actors, organisational documents, and media reports. While the study does not aim for generalisations, the selection of six is seen as useful number to gain more insights into the general observations but not lower the quality of the understanding of the cases. This number can provide in-depth qualitative data in order to gain insights into the nature of this phenomena but also offers the opportunity to find some shared findings to gain a better understanding of the actual and perhaps real domain.

3.3 Case selection

The following section describes the process of identifying potential cases for this study by first assessing the sample universe, second elaborating the sample strategy, and third reporting about the process of gaining access. The fourth section outlines the interviewer’s role which the researcher took on during the data collection. The fifth section summarises the interview procedure and then the final section details the additional data sources (including webpages, newspaper articles)

3.3.1 The sample universe - Chinese investments in Germany

This section describes the sample universe - the Chinese outward foreign direct investment (OFDI) in Germany. China’s participation in the global economy as an outward investor is relatively recent. However, since joining the World Trade Organisation in 2001, Chinese overseas investment has shown a significant and consistent increase despite the global financial crisis. According to UNCTAD (2018), continental China is ranked as the 2nd largest foreign investor worldwide in 2016 with its investment totalling in US$ 183 billion (thus behind the US with US$ 299 billion). Starting in the early 1990s, Chinese investment was concentrated primarily in the natural resource sector, directly mandated by the state to compensate for the lack of
domestic raw materials and energy supply. After Chinese Premier Zhu Rongji announced the country’s ‘Go global’ investment policy in 2002, China’s overseas investment picked up steam in other sectors. Under this initiative, the Chinese government encourages domestic companies to expand internationally. In more recent years, Chinese foreign investment has been diversifying into the services sector – including commercial services, telecommunications, mining services, logistics, and utility infrastructure – reflecting the effort made by Chinese investors to move up the global value chain. By investing in Europe, China also aims to catch up with global market leaders, tapping into foreign markets for high-value brand assets, technological competencies, and other intangibles.

The EU is one of the favourite destinations for Chinese investors, with more than €35 billion worth of completed transactions in 2016 which is an impressive increase of 77 percent from 2015 (Hanemann and Huotari 2018). Three observations can be made about Chinese investment in Europe over recent years: First, Chinese investment increasingly derives from POEs conducting more transactions than SOEs in Europe. Chinese SOEs invest, however, more in volume in Europe. Examples of Chinese POEs investing in Europe are Fosun (China's largest private industrial conglomerate), Huawei (telecommunication), Hony (private equity firm), Ping An (insurance and financial services) and Anbang (insurance company). Examples of Chinese SOEs investing in Europe are Dongfeng acquiring Peugeot Citroën (PSA) in 2014 and Bright acquiring the British breakfast cereals manufacturer Weetabix Limited in 2012. Second, in recent years, interests have developed towards acquiring minority shares in European companies (less than 51%). Examples of Chinese SOEs acquiring minority stakes are Dongfeng which acquired for €800 million 14 percent stake in PSA in 2014 or Geely acquired for €7.3 billion 9.3 percent stake of Daimler in 2018.
Previously, the preference was to purchase majority interests or 100% shareholdings, such as Geely buying Ford Motor Co’s (F.N) Volvo unit for $1.3 billion in 2010. Third, Chinese OFDI diversifies in the choice of industries, with sectors such as real estate and agriculture-food becoming increasingly important in Europe (Hanemann and Huotari 2017b). An example is ICCN GmbH who helped 210 Chinese companies to be based in and 600 Chinese to live in the German village, Hoppstädtten-Weiersbach.

To sum up, Chinese investment in Europe is diverse. Chinese SOEs tend to invest in larger projects such as acquiring or merging with European companies whereas as Chinese POEs build smaller greenfield sites. Minority stakes and investments such as in real estate are less interesting for this study as both involve little or no management exchange between a Chinese headquarters and the German entities.

### 3.3.2 Sampling strategy

As this is a qualitative study constrained by the researcher’s time and resources, choices about “when and where to interview, who to talk to, or what information sources to focus on” had to be made (Maxwell 1996:69). Initially, the sample was planned to consist of both Chinese SOEs and POEs (Yueh 20011; Zhu et al. 2005), from the same sector (sector impact HRM practices, see Tregaskis, Heraty and Morley 2001, McDonnell et al. 2010) and having invested in either the UK or Germany (role of host country, see for instance Child and Marinova (2014), Harzing (2003), Harzing and Pudelko (2016)). However, due to the slow process of gaining access to Chinese companies and limited resources, the scope was narrowed to Chinese companies in Germany, and the sector choice was broadened.
This study adopts a purposeful sampling strategy. “The logic and power of purposeful sampling lie in selecting information-rich cases for study in depth. Information-rich cases are those from which one can learn a great deal about issues of central importance to the purpose of the inquiry, thus the term purposeful sampling. Studying information-rich cases yields insights and in-depth understanding rather than empirical generalisations” (Patton 2002:230). Specifically, the study has followed a heterogeneity sampling (Patton 2002), whereby Chinese POEs and SOEs are approached having both brownfield and greenfield subsidiaries in various sectors in Germany. Employing maximum variation, potential factors impacting IHRM practices are identified to gain a more holistic understanding of the IHRM of Chinese companies investing in Germany (including ownership type, entering mode, sector and Chinese province). The aim is to yield shared patterns if they emerge from distinctively different cases (Patton 2002). The selected case companies have different investment destinations, ownership types, sizes, industries, home provinces, and international experiences but they do all seek to learn from their German subsidiaries.

3.3.3 Gaining access

The researcher tried different routes to approach Chinese companies in the UK and Germany; which are summarised in figure 3.1 and further detailed in this section. First, in the UK, contacts were sought via personal connections, including Chinese friends and students who have personal contacts to HR managers of Chinese MNEs in the UK and China or working experience in HR departments of Chinese MNEs in China (blue branch in figure 3.1). The reason for this approach is that the literature stresses the importance of personal connections and guanxi (Cooke 2009). This method started promising as the researcher built several connections to HR managers of Chinese MNEs in the Chinese HQ. The requests were forwarded to the senior and
then top management where the research request was denied. One possible reason could be that the researcher did not build directly trust with the gatekeepers in China. Such responses are not uncommon in the Chinese context and documented also by other researchers (e.g. Fang 2011; Shen and Edwards 2006; Zheng and Lamond 2009).

An example of an unsuccessful access attempt is the contact with a manager of a sizeable Chinese telecommunication company in Europe. Although he agreed to be interviewed, there were many uncertainties. Before the meeting, he and in particular his wife were concerned about the extent to which this interview would be confidential and anonymous. My contact explained that it appears that the favour was considered already as sizeable and therefore these difficulties in setting an appointment for an interview. Although the interviewee was open about his work experiences, he did not want to forward the research request in his company as he knew the answer already.

Another example was with the Bank of China. While the contact person was not able to schedule a research interview, the researcher was invited for a summer internship recruitment interview. During the recruitment interview, the researcher briefly interviewed the recruitment manager about the HR practices and policies and his own career within the company. After the interview, there was no response by the HR department (even after several calls and emails from the researcher). These examples show that although there were personal contacts established, the policy of the Chinese headquarters was to block research requests.

Gaining access to Chinese companies proved to be a challenging task in general. The key challenge was to gain approval by the Chinese headquarter. Often gatekeepers were interested in the research and supported the project but some of them required approval from headquarters. While the gatekeepers supported the research, usually Chinese headquarters rejected any collaboration with this study. The only exception
is MedCo. While the researcher met the CEO during an event in Germany, the Chinese manager was interested in the research and allowed the researcher to access the company. The gatekeepers of the other studied cases did not seek the approval of their Chinese headquarters for various reasons.

A second approach was to contact Chinese companies in the UK and Germany directly (pink brunch in figure 3.1). An invitation letter was sent via email, LinkedIn, or XING (German LinkedIn) (see appendix one). The EMENdatabase and media reports were analysed for relevant Chinese companies in Germany. From that list, 30 companies in Germany were unsuccessfully contacted.
Figure 3.1: Summary of gaining access to cases
A third approach was to contact organisations and individuals working with Chinese companies (purple branch in figure 3.1). During this process, six interviews were conducted with experts and consultants working with Chinese companies. These interviews allowed the researcher to gain an understanding about Chinese companies in Europe and the challenges they face in Germany. While the interviews were insightful the contacts did not materialise into anything substantive. Either the contact persons did not agree to the research request, did not respond at all (even after several follow up emails and calls), or the research request was forwarded to the Chinese headquarters and then denied. In one case, for instance, a contact to a German HR manager of a Chinese company was built through an interview with a consultant. This HR manager was very interested in the research project and supported the research. She had to seek, however, approval by the Chinese headquarters, who denied the request. The HR manager stated: "I do not understand why they did not agree as we are an exemplary company which has nothing to hide." Such an experience does not seem to be uncommon (Peng et al. 2001; Cooke 2009). These attempts showed clearly that strong interpersonal connection and guanxi are the foundation of Chinese business and society as highlighted by other researchers (Cooke 2009; Shen and Darby 2006; Zheng and Lamond 2009). The conclusion from this attempt is that connections to the top and senior management of Chinese headquarters is necessary to gain successful research access to Chinese companies.

Fourth, the researcher also used her various scholarship and practitioner networks in Germany to gain access to Chinese companies (yellow, turquoise brunch in figure 3.1). These fellowship networks are very active and thus were considered helpful for gaining access in Germany. The figure 3.1 visualises how the scholarship network was not beneficial although it seemed promising in the beginning. The smaller and
less active practitioner network proved to be more successful due to mainly one connection. Through this contact, access was gained to CarCo and InnoCo. Access to InnoCo was also gained via another professional connection.

A fifth approach was to attend academic and non-academic events to build a personal network and create initial contacts with potential case companies (orange brunch in figure 3.1). This approach was much more rewarding. The initial plan to use an impersonal approach in which the researcher made cold contact with human resource managers or general managers of Chinese companies during these events were usually unsuccessful (except for MedCo). The researcher then started to ask for interviews with the person at the events, and after interviewing these contact people, the question was then posed to conduct more interviews in the company. The snowball technique of asking the interviewee to suggest more potential interviews was followed to recruit more participants within the organisations. This approach was usually much more successful.

In total, six Chinese MNEs (AutoCo, HeavyCo, CarCo, MedCo, InnoCo, EnCo) were accessed, and 41 managers and employees of the companies were interviewed (of which 20 were interviewed face-to-face and 21 via telephone), see table 3.1. In addition, during the process of accessing to Chinese companies, 12 experts were interviewed, of which three are independent consultants, three are working for think tanks; one is working for the Chinese Chamber of Commerce in Germany, one legal adviser, one trade union employee, and three managers of other Chinese companies. These experts were contacted via the personal network, referrals, and contacting.
# Interviews | # Interviewees | Interviewees
---|---|---
**AutoCo** 8 6 | Works council, HR management, Chinese expatriate, back office and production employees
**HeavyCo** 11 11 | Works council members, HR management, HR employee, business developer manager, engineer, back office and production employees
**CarCo** 5 4 | PR manager, HR managers and employee
**MedCo** 5 3 | Manager, deputy manager, back office employee
**InnoCo** 8 6 | Manager, business developer managers, back office employees
**EnCo** 4 3 | HR manager, engineers

Table 3.1 Overview of interviews and interviewees

The expert interviews were insightful to gain an understanding of the context of Chinese companies and their activities in Germany and how and who to approach in order to gain access to Chinese companies. From the expert interviews it became clear, that Chinese investment is political, Chinese buyers are inexperienced and prefer to work with Chinese nationals, that a personal network is of importance to them in order to trust a researcher, and that the German and Chinese network of professionals dealing with Chinese investment in Germany is often separated in a German and Chinese network which rarely overlap.

A sampling bias with the case studies is likely to occur several ways due to the challenge of accessing the companies. First, in general, this sample consists of the successful companies that agree to research interviews, except for AutoCo. Second, a more or less successful partnership between the management of the German subsidiary and the Chinese exists in all companies. Third, German subsidiaries were mainly accessed through German nationals with one exception of MedCo. From the
expert interviews it became evident that Chinese greenfield operations also often employ Chinese managers with or without working experience in Germany or Europe. Some consultants report that Chinese managers with working experience in Germany are sought after by Chinese companies to manage their German subsidiaries. The German subsidiaries, studied here, were usually managed by German citizens, except for InnoCo and EnCo. During the access process, I met Chinese managers of Chinese companies which mainly employ Chinese citizens. These companies did decline or did not respond to the request to conduct research in their organisation. Therefore, there are limitations to the present case studies as they do not represent the whole spectrum of Chinese companies investing in Germany.

3.4 Interviewer’s role

Traditionally, social researchers have stressed that the relationship between the researcher and his or her work consists of objectivity (Patton 2002) and the researcher is independent of the research objects. Although objectivity is an admirable goal in research, the author recognises the own implicit and explicit values are brought to this research project (Denzin and Lincoln 2005). Cooke (2009) remarks that the educational experience influences the research course, asked and unasked interview questions. Due to the researcher's background and education in Western Europe, a western-centre approach to studying Chinese HRM in Germany has to be acknowledged.

To practice the craft of interviewing (Kvale 2007), the student attended an academic interview training at the Freie Universität in Berlin in autumn 2016 and a practitioner interview training with McKinsey in spring 2014. In addition, the researcher was involved in two other research projects, for which another interview training was
attended and more than a dozen semi-structured interviews with students and academics were conducted. These projects were an excellent opportunity to practice the interview skills and reflect on interview dynamics and the own role.

While conducting semi-structured interviews, the role of an interviewer was to learn from and to understand the individuals and the studied companies (Denzin and Lincoln 2005). During the first part of the interviews, the aim was to build trust by explaining the aim of the research, ensuring the interviewees of their anonymity, explaining the confidentiality of the data, the structure of the interview, and that they can choose to answer the questions or not. The researcher spoke with the participants in the language they felt most comfortable. The majority of the interviews were conducted in German, and five interviewees preferred to converse in English.

With regard to the ethical considerations, the project includes interactions with individuals, but no personal harm was committed (Bryman and Bell 2011). Perhaps the findings of this study can affect the case organisations and their employees and hence the analysis will be accomplished sensibly, and the presentation of the research findings is thought through thoroughly to ensure anonymity. Steps were taken to protect the studied companies and interview protocols by anonymising the interviewees and companies and safeguarding the transcriptions in a password-protected folder.

King's College London Ethics Committee gave full ethical approval in 2014 and again in 2016. This research project was carried out based on the code of conduct of the EU RESPECT project. To follow the principles of the EU RESPECT project the participants were informed of the purpose and procedure of the interview and the research in general. The interviewee's rights, the measure to keep the data confidential and anonymous were explained face to face and stated on the information sheet and
consent form (see appendix two). The transcripts and notes are stored with fictive names. These measures ensure to follow the Ethical Code of Conduct of the EU research project including:

- the rights and dignity of individuals and groups should be respected
- wherever possible, participation should be voluntary and appropriately informed
- research should be conducted with integrity and transparency
- lines of responsibility and accountability should be defined
- independence of research should be maintained, and where conflicts of interest cannot be avoided, they should be made explicit.

3.3.5 Interview procedure

To test the interview schedule, an interview was conducted with a former HR manager of a Chinese logistics company in the UK in the summer of 2014. The purpose was to test whether the questions are clear for the interviewee as well as to measure the duration of the interview. The structure of the interview schedule seemed to develop naturally, and the questions applied well to the company during the interview. Afterwards, the interview schedule, information sheet, and informed consent were translated into German by the researcher and then translated back by a colleague who is a German native speaker. The backward translated documents were then checked for inconsistencies (Harkness and Schoua-Glusberg 1998). Minor aspects were altered in the German documents after the backwards translation.

The interviews were performed between August 2015 and June 2017, ranging in length from 20 to 120 minutes. A total of 53 interviews were conducted. Five participants were interviewed twice. Before each interview (except for the second round of interviews), the study's Information Sheet and Consent Form were given to
the interviewees. Sometimes it was emailed before, and sometimes it was presented at the beginning of the interview meeting. The reason for not emailing it to all participants before the interviews is that this ethics procedure is not (yet) standard in the social research field in Germany and therefore some participants were suspicious. One contact person, for example, remarked: "Do researchers need to back themselves up now legally? I am only used to this from businesses." The information sheet allowed the participants to familiarise with the interview objectives, context, and their rights. Seven interviewees wished not to be recorded during the interview. None of the interviewees have retracted their interview.

The semi-structured nature of the interviews allowed the researcher to focus on themes which emerged from the literature but offered the interviewee the opportunity to approach other ideas, too. The structure allowed for a degree of focus while the flexibility allowed for a better insight into the rich social context (Patton 2002). The interviews followed a common thread, starting by asking general background questions of the interviewees and how they started in the company (e.g. how the interviewees started in the company, international experience, and/or exposure, previous work experience, how they were recruited for the organisation). The semi-structured nature of the interviews allows to gain an insight into the social context of the interviewees and to build trust.

The interview schedule follows a range of topics which addresses specific theoretical issues, such as subsidiary role, managers' and employees' role, and influences on HR practices and policies. Given the research questions, the interview schedule covers the following themes:

- the company’s integration approach with the German subsidiary
- relations and contacts with Chinese HQ
• perceptions and experience of ‘Chinese’ management and practices
• employees’ areas of content or discontent
• the overall character of the management system of the company
• significant events and changes in the company

Reflecting on each interview, possible new themes valuable for subsequent meetings were evaluated, and if meaningful, the interview questions were updated. If the interviewee mentioned interesting aspects of conflicts, negotiations, and decision-making processes, the researcher followed up to gain more insights into the development of the interviewee’s agency and actions.

To increase the credibility of the study, meaning “whether the researcher has gained full access to the knowledge and meanings of respondents” (Remenyi et al. 1998:115), the interviewer validates her interpretation of the interview with the interviewees. During the meeting, the interviewer therefore checked whether her interpretation reflects what the interviewees expressed. In addition, the majority of interviewees were open to help and to be contacted again for clarification.

After having conducted the interviews, three observations are noteworthy. First, one group of interviewees was used to and felt comfortable to give interviews. The works council leader of HeavyCo, for example, gave interviews to several national and international newspapers in the past and some of his quotations from these articles were also recognisable in the transcripts of his interview. A second group was suspicious, unsure, or insecure and therefore was less open. In particular the Chinese nationals were vague and restricted their answers. Interviewing Chinese managers about specific management practices proved to be difficult. Therefore, the focus was mainly on German employees and managers. One example is a German engineer from HeavyCo who used his private mobile phone outside the office to answer the interview.
questions: "I am not sure how much I can tell you. Indirectly this is like a coaching for the Chinese company if they take this seriously. It is not beneficial for me as a German employee to indicate the weaknesses of this Chinese company. Later I will have a disadvantage if the Chinese companies makes improvements. The Chinese (colleagues) demand knowledge transfer. The German location is only beneficial as long as the Chinese demand knowledge. If the knowledge is in China to what extent is it reasonable to have research and development in Germany? This [knowledge transfer] is my concern when I am talking to you." A third group used the interviews to reflect on issues and conflicts at the workplace. In particular, the interviewees of InnoCo describe several issues at the German subsidiary and conflicts with their headquarters.

### 3.3.6 Additional sources of data

In-depth interviews remain the most critical source of data because they give valuable insights into the research issues and research question. Several interviewees offered employees magazines and other documents to the study. In addition, company web pages and newspaper articles were also included in the analysis, see table 3.2. All these materials were used to draft descriptions of the studied firms. Each document is written for a specific purpose and audience which is taken into the analysis process (Yin 2009).

<table>
<thead>
<tr>
<th></th>
<th>AutoCo</th>
<th>HeavyCo</th>
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<tbody>
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<tr>
<td>Other Websites</td>
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<td>3</td>
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<td>3</td>
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<tr>
<td>Company website</td>
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<td>Yes</td>
<td>Yes</td>
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</tr>
</tbody>
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3.4 Data analysis

This data analysis section focuses on how the data was dealt with after the data collection. A database was built for each case subsidiary, including the interviews, webpages, collections of newspaper and magazine articles, and company documents. To create the database, all interviews were transcribed. The first section details the transcription process. To analyse all documents this project worked with NVivo. The second section details the advantages and disadvantages of qualitative data software and explains the reason for managing the analysis process with NVivo. The third section specifies the development of the coding scheme, and the coding process. The final section reflects on the researchers’ role during the data analysis process.

3.4.1 Transcription

Before the analysis, all interviews were transcribed. The computer software F5transkript was used to assist the word-to-word transcription. Although this practice takes more time, this kind of transcription allows to immerse in the context and reflect on nuances. If not being able to record the interview, notes were taken during the interview and then directly after the interview notes were written out in more detail. The interviews were all kept in their original language. If the transcripts are in German, only fragments have been translated into English to provide the thesis with quotes.

Transcription texts are social artefacts which were produced, shared, and used in socially systematic ways (Denzin and Lincoln 2005:640). Participants reflect on their working life and their social interactions at the Chinese companies. The data analysis

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<th>Company Documents</th>
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Table 3.2: Overviews of collected documents of case studies
attempts to understand and interpret the participants' reflections. To reach this goal, the reading of the transcripts was repeated. First, all transcripts were read thoroughly to gain an overview and understanding of the themes. Second, a detailed reading of the transcripts followed, reading line-by-line, paragraph-by-paragraph. New themes emerged while coding the data. The new topics were related back to the research questions. Previous transcripts were revisited to code any representation of newly developed items.

3.4.2 Qualitative data software

To manage the analysis of the data, a qualitative data software was used. There are several advantages of using a software for the analysis of qualitative data. First, qualitative data software allows for the organisation and storage of hundreds of pages of text in word and pdf format. Second, the data can be easily searched for, accessed, and reviewed. Critics believe that the usage of software can create a distance between the researcher, empirical data, and fieldwork experience (Denzin and Lincoln 2005). A further criticism is that there is a risk of standardising the coding procedure replacing a more emergent way of the analysis process (Coffey and Atkinson 1996). Data software cannot substitute the analysis process, but it can complement the analysing process by coding systematically and writing memos, while the researcher focuses on reading and immersing in the transcripts, data, and company documents. In comparison to other software options, NVivo has several advantages. First, it can store and code PDF files. Second, the software recognises different languages which are an advantage for the transcriptions in English and German. Third, the software permits the classification and sorting by topics and categories, arranging the various data points, and it offers the option to link, search, and model the data (Patton 2002). Therefore, the researcher chose NVivo and the version NVivo for Mac on macOS 11.4
was used for the coding process of this research. NVivo successfully supported the analysis process and the memo function was helpful to capture any thoughts and questions about the data.

3.4.3 Coding

The steps of the thematic analyses by Ritchie and Spencer (2009) were applied: read interviews and other data thoroughly, develop and define categories, indexing (meaning applying the categories to the data), charting, and mapping and interpretation. After doing so, the data was synthesised – making connections between the extracted information (Hart 1998).

Once the data was transcribed, the task is to understand and analyse the empirical data. Analysing means to "systematically break down the data into its key ideas, theories, concepts and methodological approach and then describe how the relation to each other" (Hart 1998:110). The analysis of the data is attempted to be conducted in an as rigorous and consistent way as possible, through coding. Coding is an essential part of the content analysis by judging the meaning of text blocks (Miles and Huberman 1994). This analytic tool implements a more systematic character in qualitative data analysis focusing on 'data retention' (Richards 2009:56; Daniels and Cannice 2004). It brings data together to understand relevant themes. In this way, qualitative research can learn from the data until patterns and explanation emerge and can be recognised.

Coding should be purposeful, and its purpose actively influences the direction of coding and the analytical results (Richards 2009). For this study, codes were categorised thematically: The first category focuses on the background of the subsidiaries e.g. on the acquisition process in the case of the brownfields and the founding of the German subsidiaries for the Chinese greenfield cases different
employment, the motivation to invest in Germany. The second category concentrates on the German and Chinese management of the company e.g. communication, decision-making processes, control mechanism. The third category accumulated information about the HRM practices (e.g. recruitment and selection, payment and development, training and development) and to what extent changes have taken place, German and Chinese influences were noticed or mentioned. A fourth category clustered data about forward and transfer processes in the companies. A fifth category combined all examples of conflicts. The developed coding scheme can be found in appendix four. The coding frame reminded the researcher to focus on certain aspects of the material which are of interest for the study. It defines five themes and their respective sub-themes that were used to code the data with inclusion and exclusion examples (Barnes 2013; Schreier 2012; Renner and Taylor-Powell 2003). The main categories consist of the company's management practices and policies, significant events and changes, and the perceptions and experiences of ‘Chinese' management. First, the data was clustered for a within-case analysis to reveal insights into human resource practices in the studied German subsidiary. Then a table of themes was created during the data analysis, and comparisons of data from the studied firms were made. A systematic analysis and comparison of the case studies' data enabled the researcher to search for similarities and differences and identify patterns across cases. To further increase the credibility, the gatekeeper of each company was asked after the case study reports were finalised whether the case results reflect the notion of their case company (Yilmaz 2013). The gatekeepers have all agreed with the reports.

3.5 Conclusion

To conclude, this research answers the research questions with a qualitative methodology. A multiple case study research strategy is followed to contemplate the
role of context in this research on the IHRM of Chinese companies. To increase the authenticity and trustworthiness of this research this chapter focused especially on the data collection and analysis processes, reflecting on the researcher’s role and influence. To increase the auditability of the research and data dependability, several procedures were followed such as the careful design of the interview schedules, inclusion of several data sources, the use of systematic and standardised coding schema, and the development of a case database for each subsidiary. The replication of the study's conclusion is debatable (Lincoln and Guba 1985; Maxwell 1996) because the cases are context specific and conducted at one time point. This study, therefore, focuses on confirmability of the interpretation and findings by engaging in logical and precise interferences from the data (Richards 2009). Given the complexity of the phenomenon being studied the institutional and organisational context of the cases are thickly described in the following chapters to allow for the possibility to replicate the finding to other settings (Yilmaz 2013).
4. The context of Chinese MNEs investing in Germany

In order to gain an insight into the Chinese management of German subsidiaries, it is important to understand the context that shapes the activities of Chinese MNEs and their German subsidiaries (e.g. Almond and Menendez 2006; Cooke 2018; Delbridge et al. 2011; Farndale et al. 2017; Gamble 2010; Geary and Aguzzoli 2016; Edwards et al. 2007, Smith and Meiksins 1995; Schuler and Tarique 2007). Research has demonstrated how the institutional context shapes business strategies (e.g. Kostova 1999; Hall and Soskice 2001), human resource management (HRM) (e.g. Boon et al. 2009; Björkman, Fey and Park 2007; Farndale and Paauwe 2007), and employment relations (ER) practices and policies of companies (e.g. Ferner et al. 2005; Wilkinson and Wood 2012). MNEs are embedded in their home country and distinctly act in a ‘national way’ (Hall and Soskice 2001). For instance, some German MNEs preserve their ‘German-ness’ abroad such as their long-termism in their general business strategy (Ferner and Quintanilla 1998) and their developmental HR orientation, emphasising their approach to vocational training (Dickman 2003). Less is known about the Chinese ‘national way’ due to the recent activities of Chinese companies abroad and China’s transformation away from the ‘three iron systems’.

The host countries, however, also affect HRM and ER practices and policies of MNEs such as salary structures, performance management, and employee participation. The institutional context includes both ‘hard’ regulatory structures and ‘softer’ cognitive or normative understandings (Ferner 1997; Hall and Soskice 2001; Whitley 1999). Scholars who analyse differences between developed market economies often assume that national business systems hold ‘static’ and ‘enduring’ national features such as in the case of Germany. The prominent framework, Varieties of Capitalism, by Hall and
Soskice (2001), captures such enduring national features by classifying economies into liberal and co-ordinated business systems. This distinction is based on the extent to which firms and other institutional actors coordinate their undertakings with each other via non-market and market mechanism. While the framework highlights Germany as the classic example of a coordinated economy, it has difficulties to describe China. Performance-based pay is challenged by employee representatives on the notion of fairness and solidarity especially in coordinated market economies such as Germany (Ferner et al. 2012). For example, Liberman and Torbiorn (2000) study an Anglo-Saxon MNE and its eight foreign subsidiaries within Europe and while the majority of the European subsidiaries, such as the UK and Poland, accepted the standardised performance management system, the works council of the German subsidiary prevented the implementation.

Although the home and host-country’s institutions and markets shape HRM and ER practices and policies of MNEs, the dominance effect and system effect have to be considered for this research, too. The theoretical framework by Edwards and colleagues (2007) focuses on the interaction of market and home- and host-country effect shaping the agency of organisational actors in MNEs. There is often a scope for organisational actors to influence managerial practices. Organisational actors draw on the resources of the institutional context to negotiate and influence developments in their interests. The way in which the institutional context enables and constrains organisational actors of German subsidiaries owned by Chinese companies is examined at the end of this chapter.

This chapter examines the system, dominance, and home and host-country effects on Chinese MNEs operating in Germany. The first section focuses on China and consists of three parts. The first subsection summarises China’s historical development, the
transformation from a planned to a market-based economy. The second subsection examines the implications this economic transformation in China has for companies in China - particularly the employment relations system and HR practices and policies. The third subsection discusses how the ER system and HRM practices and policies have diversified and now vary across Chinese provinces and state-owned and private-owned enterprises and that it is difficult to generalise findings. The second section looks at Chinese investment in Europe in general, and Germany in particular. The third section addresses the German context, focusing on Germany's stable institutional features and on some of the changes taking place within the German institutional context. The last section of this chapter summarises the chapter and reviews the extent to which Chinese MNEs and German subsidiaries can draw for power resources from the institutional contexts.

4.1 China’s institutional context and human resource management

This subsection discusses (1) the historic context of China, (2) Chinese HRM characteristics, (3) the employment relation system and in particular the role of the Chinese government, (4) the education system. It has to be stressed that the ER and HRM practices and policies vary among regions and ownership types. To make general statements about Chinese HR and ER practices and policies are difficult because these vary among provinces and ownership types. Thereafter a discussion regarding regional and ownership diversity of HRM and ER practices follows.

4.1.1 Chinese historical context

After the establishment of the People’s Republic of China in 1949, the one-party government established a socialist system. Companies in all sectors were owned, managed, and controlled by the central or local government (Wu 1994). The labour
relations were characterised by the ‘three irons’: the iron rice-bowl, iron chair, and iron wage. The enterprise-based *danwei* (or work unit) system provided lifetime employment and extensive welfare benefits (the iron rice-bowl) such as healthcare, corporate accommodation, funeral services, and child care. Employment was centrally planned (the iron chair) and the management of the SOEs was selected from a pool of government officials. Candidates for managerial positions were selected based on technical expertise and political soundness. The pay scheme was egalitarian, based on workers’ age, seniority, and loyalty, reflecting the hierarchy of the organisations (iron wages; Ding and Warner 2001). The management was also evaluated by their ability to fulfil the set targets of the national production plans. During this period the political leadership protected and cared for the workers in principle, however, it suppressed labour activism and did not encourage workers’ initiatives. China’s planned economy created a situation whereby SOEs under-utilised their employees and suffered severe financial losses (Ding and Warner 2001). This system caused enterprises to be static and inefficient in China and some of its adverse effects are still present in Chinese SOEs.

After Mao’s death in 1976, China underwent a gradual and evolutionary shift to a market-based economy. In 1978, the Communist Party introduced the beginning of the economic shift by announcing the economic structural reform: ‘Socialism with Chinese characteristics’ which aimed to develop a more efficient economy (Warner 1993). The government started to organise economic entities that were responsible for their profits and losses, gradually easing pricing restrictions. This allowed companies to retain profits, and set up their own wage structures. Although the Chinese economy is no longer a planned economy, the CCP continues to exert considerable influence on national and regional authorities and businesses, economic and social development, in particular through its five-year plans. This transformation has commenced the
liberalisation of business practices and the privatisation of former small and medium state-owned companies.

During China's transformation, the state sector had been only partially dismantled. The option of private ownership was forbidden, but small family businesses emerged illegally in some parts in China from the early 1970s onwards and were then under Xiaoping legitimised by issuing licenses (Wang 2008). In 1999, China’s constitution eventually acknowledged private ownership, but the rights of private business owners were guaranteed constitutionally only in 2004. Chinese private enterprises encompass both former state-owned firms and township and village enterprises which have been privatised, as well as businesses founded by entrepreneurs. While the number of SOEs has decreased to just 290,000, the number of private enterprises increased to about 10 million in 2015 (National Bureau of Statistics of China 2017). In contrast, the majority of other countries shifting from a socialist economy have changed their state-owned companies into commercial enterprises (Broadman 2001). The government remains intertwined in businesses due to its ownership in state-owned enterprises which remain a significant feature of the Chinese economy. Due to China’s transformation the country has emerged as a global economic and political power.

4.1.2 Human resource management and pay and development practices

Under the economic reform, HRM practices of Chinese companies have been moving away from the ‘three irons system’ (in particular in the private sector), yet there is still not a distinctive Chinese way of HRM. The membership of the WTO in 2001 allowed China to increasingly integrate into the international market. Foreign capital was allowed to enter China and the quickly growing FDI to China gave rise to a large number of
foreign companies to setting up factories in China. China quickly became the ‘workshop of the world’ (Child and Rodrigues 2005; Gao 2012; Henderson, Appelbaum and Ho 2013; Nadvi 2014).

China’s rapid expansion to be the outsourced production centre of the world was due to its vast supply of a well-educated labour force (in comparison to other developing countries) and its low labour costs. The standard of China’s primary and secondary education system is relatively good compared to other lower-income Asian countries (Yan and Yudong 2003) and therefore China was able to provide a well-educated workforce for the manufacturing sector.

These labour costs have stayed relatively low because of an increased competition among Chinese companies in general, Chinese SOEs in particular, leading to lower wages, long hours, and fewer welfare benefits. In addition, the great number of Chinese migrant workers amounting to 287 million is more than one third of China’s total workforce. This is another reason as to why labour costs have remained low (National Bureau of Statistics 2018). While these migrant workers are the engine of China’s remarkable growth, they remain marginalized and subject to institutionalized discrimination. The marginalisation and discrimination of migrant workers is one reason why, since the opening of China’s economy, the labour standards in Chinese companies have lessened in particular in the manufacturing sector.

Meanwhile Western MNEs and specifically joint ventures (JV) with Western MNEs have brought skills, technical expertise, managerial competence, and ‘best practices’ to their Chinese partners. Western companies were not freely able to enter the Chinese market, but they were only able to enter the Chinese market through joint ventures with Chinese local partners. In this way, Chinese businesses have been enabled to learn from their Western partners, adopt ‘best practices’, and develop their managerial
practices to a global standard. Also, the exposure to and membership of international organisations, such as the WTO, have contributed to the professionalisation of Chinese companies. For instance, the wage system was reformed when the economic reform and performance-based pay was introduced such as piecework wage and bonuses (Warner 1996). This practice, along with competence-based pay, has become the dominant practice among Chinese companies (Chiu, Luk and Tang 2002). There is thus a rather a hybrid form of Chinese human resource management (Ding and Warner 2001; Zheng, Morrison and O'Neill 2006; Zhu et al. 2005). Partly due to the significant system changes, the opening of its economy, and the influence of Western companies, it has become increasingly difficult to identify a ‘Chinese model’ of HRM practices.

Since the transformation, China has experienced a shortage of human capital with management and entrepreneurship skills (Cooke 2009). China’s weakness is the slow development of its tertiary education system (Fleisher et al. 2011). For instance, only two universities (Peking and Tsinghua University) are represented in the top 100 World Reputation Rankings in 2017 (Times Higher Education 2018). That being said, the business tertiary education programmes have progressed faster in comparison to higher education overall (Fleisher et al. 2011). Western-style business courses and business schools have emerged in China and diffused management ideas and ‘best practices’ among the younger generation (Warner and Goodall 2009). Initially, joint teaching arrangements between Chinese and foreign universities were established to introduce management practices from mainly Japan, the US, and Europe (Zhu, Warner and Rowley 2007). However, there remains a lack of management education in China. China’s fast-moving industries require skilful and internationally experienced employees. Yet at the moment it lacks individuals who possess sufficient (international) managerial expertise.
The majority of studies on the management of Chinese MNEs abroad report that Chinese managers lack international managerial capabilities (Cooke 2014) as well as international experience (Spigarelli et al. 2013; Zhang et al. 2014; Shuqin Zhu 2015). Zhang and colleagues (2014), for example, demonstrate that in Chinese subsidiaries operating in the UK, local employees with superior knowledge and skills have challenged their Chinese expatriate management. Zhu's (2015) case studies of Chinese MNEs in Australia indicate that in conflict situations, Chinese managers lack international management experience to choose from a repertoire of strategies to deal with trade unions. This lack can involuntarily lead to the occurrence of a home country effect. This lack of international management skills is also reflected in Baker's (2009) survey of over 3,000 senior managers. The survey indicates that most companies were not (sufficiently) preparing their executives for international tasks. The respondents tended to have a China-centric view combined with a strong sense of hierarchy. This prevents Chinese leaders from effectively managing the labour force in their foreign subsidiaries in countries such as Germany (Hofstede 1980).

In addition, the (international) training system in Chinese companies is not very advanced (Zhang and Peck 2016). For example, Shen and Darby (2006) find that only limited or ad-hoc training is provided to Chinese expatriates. The provided training tends to focus on cross-cultural issues (Shen 2005) but lacks long-term management development planning and a teaching of formal and systematic management processes. Particularly pre-departure and post-departure cross-cultural training programmes are essential for Chinese expatriates in Europe. Otherwise the lack of skills and expertise may create unintended rather than intentional home country effects.
While the recruitment and selection process consist of a mix of Western ‘best practices’ and *guanxi*, the recruitment mechanisms of SOEs are also influenced by the Chinese Party. The Chinese government can appoint, assess, promote, and remove top SOE leaders such as board chairmen, Party secretaries, general managers and presidents. Often such top SOE leaders hold both a managerial position in a Chinese SOE and a Party appointment and thus an overlap between the membership of boards and Party committees has become more common (Rosen, Leutert and Guo 2018). The reason for this increasing overlap is that the Xi administration has been institutionalizing such linkages between the Party and SOEs. For instance, Party committees discuss “major decisions” before they go to Chinese SOE’s boards of directors for final decision-making. The role of the Chinese state becomes increasingly important not only for the recruitment and selection process but also the general decision-making process of Chinese SOEs.

A remaining typical Chinese practice is that *guanxi* can facilitate an easier job search for individuals and a simplified recruitment process of external candidates for companies. Within Chinese organisations, SOEs and POEs likewise, *guanxi* can also increase the trust among colleagues and supervisors which may facilitate internal promotion and recruitment.

Looking at *guanxi* more closely, it has to be stressed that the current Chinese HR practices are not only influenced by formal institutions but also informal ones (Brewer 1993; Peng and Heath 1996; Peng and Luo 2000; Xin and Pearce 1996). In particular, the interpersonal networks with mutually beneficial relationships (*guanxi*) can partially substitute formal institutions, and it is interwoven with formal institutions in China (Chung 2006; Li 2005; Peng and Heath 1996; Peng and Luo 2000; Wu and Leung 2005; Xin and Pearce 1996). Such interpersonal connections manage
expectations and responsibilities in Chinese society in general and the labour market in particular (Lovett, Simmons and Kali 1999). For companies, a lack of *guanxi* means a lack of inside information, resources, and support from key actors from the private and public sector (Boisot and Child 1999; Luk et al. 2008; Krug and Hendrichcke 2008; Su and Littlefield 2001; Zhou 1996). *Guanxi* can be helpful for companies to recruit and select talent and for individuals to secure a good position. At the workplace level, *guanxi* can also influence organisations as it strongly focuses on the management of (interpersonal) relationships (Cooke 2009). For instance, employees might be asked if they know someone who can fill a vacant position. Such informal institutions undermine both the internalisation and implementation of legal policies and rules and can result in weak or arbitrary enforcement, especially outside major urban areas. Chinese managers might expect similar informal institutions to be present in the German environment. The infamous example of China Overseas Engineering Group (COVEC) demonstrates how the lack of knowledge of the new host country can lead to an unsuccessful business case. COVEC successfully bid to build a section of a motorway A2 in Poland in 2009. This bid was less than half the price of the planned budget by the Polish government. The management of COVEC did understand that their offer was legally binding, and the Polish government could not renegotiate the offer of the public tender (Jacoby 2014). Because of their dumping offer, an incomplete understanding of the legal context of the public tender, and resistance of the local businesses to cooperate with COVEC, the Chinese company failed to complete the motorway construction. Such unchallenged assumptions of Chinese managers may complicate their decision-making process in the German subsidiaries.
Although there is not a distinct ‘Chinese model’ of HRM there are differences in HRM practices between Chinese SOEs and POEs. In particular in SOEs HRM practices are uneven and fragmented (Chow 2004; Lewis 2003; Zhu et al. 2005) and lack behind POEs (Law, Tse and Zhou 2003; Zhu et al. 2005). State-owned enterprises and collective-owned enterprises were significantly behind private-owned and foreign-invested enterprises in using functional HR practices (see also Zhu et al. 2005). The current HRM practices and policies of Chinese companies depend on a company’s age, size, ownership type, sector, the role of HRM within the firm, and the organisation's competitive strategy (Ding, Ge and Warner 2004). In general, it can be observed that compared to the planned economy, the labour market has become more competitive with increasing differences in income at both the firm, regional, and societal level. Most companies in China have an HR department to recruitment, training and performance appraisal (Ding, Goodall and Warner 2000; Zhu and Dowling 2002). The Chinese central government still acts with a ‘visible hands' approach, influencing, directly and indirectly, legal, regulatory, and financial elements of the Chinese business system (Buckley et al. 2007; Liang, Lu and Wang 2012).

In China, there is a much more hierarchical understanding of work relations in comparison to Europe. In Chinese companies, there is a prominent hierarchy in which orders are obeyed, and the instructions of higher ranked employees are followed. Although Western countries vary in their hierarchical structure, they have a more democratic leadership style compared to China. One study by Wang and colleagues (2016) shows that British employees in a Chinese subsidiary tend to perceive their Chinese managers as less social because they do not interact with them during lunchtime breaks or after work. The employees reasoned that Chinese expatriates have a more work-centred approach and they perceived a higher power distance between
them and the Chinese managers. According to Busch and colleagues (2013), an authoritarian leadership style adopted by Chinese managers is perceived as problematic and dysfunctional in Germany. Wang and colleagues (2016) argue that Chinese expatriate managers’ home-developed interpersonal and communication skills are not readily transferable to different contexts, and in particular not to Western Europe.

The distinction between state-owned and private-owned companies: The state and local government maintain a dominating ownership interest in Chinese companies in various sectors, so-called state-owned companies (SOEs). Chinese SOEs account for less than a fifth of China’s output today. For example, China’s state-owned steel companies are known for being inefficient. Instead of closing them, the CCP subsidises these state-owned companies and their millions of employees. Chinese SOEs still enjoy greater state benefits, take about half of all bank loans, causing the most significant increase of Chinese corporate debt (Buckley et al. 2007; Cui and Jiang 2012; The Economist 2017). Today, SOEs remain more prone to both government intervention, and political pressure compared to private owned companies (POEs) (Zheng et al. 2006). Tam (2000) argues that the state holds this control to maintain urban employment levels, direct control over sensitive industries, and politically motivated job placement. Nevertheless, although the private-owned firms play an essential role in driving China's economic growth, are more productive, and employ 60 percent of the workforce in 2010 there remains an institutional difference between the ownership types (Guo and Miller 2010; Pistrui et al. 2001; Tsui, Bian and Cheng 2006).

First, SOEs and POEs face different regulatory and institutional environments. SOEs have inherited the employment and social welfare functions of the socialist period, and although they moved away from the ‘three irons system’, SOEs may retain some
of the traditional management characteristics from the Chinese centrally planned economy prior to 1978 (Bai and Enderwick 2005). Through China’s policy for Western MNEs to enter China through a joint venture with a Chinese company, SOEs often have a hybridisation of management practices. The legacy of the iron system is visible in several aspects (Benson and Zhu 1999; Glover and Siu 2000; Hassard, Morris and Sheehan 2004). With regards to the salary structure, for example, the pay and reward policies of SOEs are typically based on job responsibilities, individual skills, enterprise performance, qualifications, and length of service. Some SOEs also subsidise housing and health insurance (Ding et al. 2000; Warner 1997, 2009). With regards to the recruitment process, the influence of the Chinese government also prevails: the promotion of managers or the leadership of companies is often influenced by the Chinese government. The recruitment process and other factors are a reason why the ‘three irons system’ still influences the HRM practices and policies of SOEs. First, SOEs often have poorly developed management development programmes which also affect the management of their foreign subsidiaries. Second, the older generation tends to oppose workplace changes and prefers the security of a state-owned company. These factors maintain the heritage of the ‘three irons system’ in SOEs. The political pressure and the global competition have led to a hybrid form of management in SOEs, in which western practices have been integrated partially but the tradition of the ‘three irons system’ remains (e.g. Hassard et al. 2004).

The majority of Chinese POEs are family businesses which emerged after the economic reform and thus carry fewer features of the traditional Chinese iron system. The organisational structures and practices tend to be simpler compared to SOEs. The majority of smaller POEs is characterised by short-term oriented business goals, nepotistic promotion and succession, and basic management techniques (Cooke
Being more pragmatic and flexible in terms of HRM practices, POEs lack long-term HR planning, a commitment to training and development, and employee involvement and participation (Shen 2008). Chinese POEs typically do not implement a systematic training scheme due to financial and time resources (Shen and Darby 2006). Therefore, training commonly occurs on the job. The more successful companies which are also internationally known, including Huawei, Lenovo, TCL, and Haier, have developed distinctive management systems integrating global ‘best practices’ (Teagarden and Cai 2009). Compared to SOEs, POEs do not, however, have the burden of over-employment and social obligations (Child and Pleister 2003; Liang, Marler and Cui 2012). This can lead to higher efficiency, flexibility, and cost-effectiveness. Organisational practises can thus vary between ownership types and size of POEs.

4.1.3 Employment relations practices in China

The Chinese industrial relations system has been under a tripartite framework since 2001 (Lee 2009). The only trade union in China recognised by the government is the ‘All China Federation of Industry and Commerce’ (ACFTU). The counterparts to the ACFTU are the ‘China Enterprise Confederation; (CEC), the ‘All China Federation of Industry and Commerce’ (ACFIC), and local associations (Lee 2009). All involved agencies in the Chinese employment relations system are state-controlled. The ACFTU is an organ of the Chinese Communist Party’ (CCP) and operates in compliance with it (Taylor and Li 2007). The CCP approves new initiatives by ACFTU, and the chair of the ACFTU is a member of the CCP and can also hold a government position. The Party usually also picks a lower management employee to be union representative in Chinese companies. Through the nomination process, employee representatives are not independent of the CCP or the company and do not
solely present the employees’ interests. The function of the ACFTU is rather to promote production of the company, dispense welfare, mediate disputes, and to appease angry workers. Employee representatives do not exercise collective rights on the workers’ behalf (Cooke 2009; Taylor, Chang and Li 2003) and they are part of the company’s management team. Being a service provider and dispute mediator, the role of the Chinese trade unions is an intermediary between the management and employees. The resulting tasks are more managerial, including consulting the management about employee-related topics such as health and safety, giving awards to exemplary workers, and managing social activities. Due to the close link of the ACFTU to the Communist Party, and close relationship with the management, the trade union representatives are influential but do not necessarily represent the employees’ interests and rights (Cooke 2009).

Formally, China’s employment security protection system is ranked among the best in the world by the OECD Employment Protection Index (2018). In 1994/95 the new Labour Law was established with the principle "workers finding their own jobs, employment through market regulation and employment promoted by the government” (Yan 2006:4). However, although the Labour Laws encompassing tight labour protection regulations are ratified, workers remain somewhat unprotected as the local government rarely enforces such laws ratified by the central government. The Chinese state rather undermines worker organisations by imposing a bifurcated strategy – a strategy that restricts workers collective rights on the one hand and provides them with individual rights depending on their age, contract, benefits, and hukou status (household registration) on the other. An example is the manufacturing sector, where less skilled workers face employment insecurity, high flexibility in their place to work, low labour conditions (e.g. long working hours, low salaries and high
pressure to work fast), and poor living conditions (dormitories) (Chan and Nadvi 2014). In addition, they often cannot access the social benefits in the cities where they work in because their hukou status determines they have a rural (agriculture) status and not an urban (non-agricultural) status. Recent laws have expanded the number of people in the formal sector and increased access to social insurance to improve the working conditions but access to social benefits remain vastly different between migrant and urban workers (Branigan 2014; Friedman and Kuruvilla 2015; Huang and Pan 2017). This means in other words that migrant workers from rural areas working in factories located in cities cannot access the same social security system as urban workers being from a city.

The role of ACTFU contributes to advocating and enforcing individual labour rights of the labour laws and promoting dispute settlements rather than collective actions. As the ACFTU insufficiently represents the voice of the workforce, workers must organise themselves or use private actions in order to receive legal protection. The right to strike was removed from the Constitution in 1982 (although there is no constitutional prohibition on workers from taking strike action). Instead, the labour dispute resolution system was established in 1993 which involves mediation, arbitration, and litigation as methods to settle labour issues (China Labour Bulletin 2014). The system is biased towards individual cases, however, and it tends to protect employees in the higher end level of the labour market more than those in the lower end. Workers often lack the skills and representation to use the Chinese labour law effectively. The Chinese system has led to some tragic incidents of workers’ hopelessness (China Labour Bulletin 2015). One prominent example is the series of Foxconn suicides in 2010. Assembly-line workers began committing suicide due to hopelessness and in protest of the working conditions (including high stress, long
workdays, harsh managers humiliating workers, unfair fines, and reneged promises of benefits) (Clark and Boersma 2017). It shows how powerless some workers are to change their work conditions. This reactive and bottom-up enforcement of labour rights is suboptimal for unskilled workers.

The sense of injustice amongst those disadvantaged has to some extent been suppressed or internalised through the doctrine of social values and the hierarchical structure of China's society. The Chinese value of hierarchy partially explains why workers may often tolerate management malpractices until they reach a limit and then suddenly erupt with grievances. For instance, a common practice among employers in the manufacturing sector was to delay the payment of factory workers, sometimes not even paying any salary at all. Values and ideologies are, however, changing in China, as evidenced by the rising level of labour disputes from workers, demanding a higher level of social justice (e.g. Wang and Cooke 2017). If workers want their employers to listen to their demands, they either organise themselves or are supported by NGOs to go on strike. Collective disputes are discouraged by the CCP, resolved informally, and often only taken place after workers take industrial action (China Labour Bulletin 2014). Chinese employers generally do not voluntarily enter into collective bargaining on pre-existing consent between labour and management. Employers are forced to negotiate by employees through strikes or the threat of strikes which is a contrast to Western bargaining practices where strikes usually result from a failure of negotiations.

The circumstances of China’s employment relations do not create a sphere for fair labour negotiations and questions the capability of the ACFTU to protect and to promote workers' interests (Taylor and Li 2007). Although labour activism has increased in China, thus far it has remained disorganised and scattered which is very
different from the situation in many Western countries, including Germany. The societal context for employment relations research is thus much more dynamic in China in comparison to other national institutional contexts such as Germany. In contrast to the ACFTU, German trade unions usually represent employees with more political power to protect and promote their interests. Chinese companies are likely to be unfamiliar with the independent and strong trade unions in Germany. This difference in the labour relations and the later use of strikes by local workers in Chinese foreign subsidiaries provides the potential for misunderstanding between Chinese owners and the local actors of German subsidiaries.

With regard to the strategies of employment relations of Chinese investors there are three observations of employment relations of Chinese investors. First, several studies focusing on IHRM of Chinese companies, for instance by Cooke and Lin (2012) and Zhu and Wei (2014), report that Chinese companies have underestimated the local labour relations for their international investment decisions. Lacking this knowledge leaves Chinese management largely underprepared to negotiate with their overseas employees' representative organisations which are more commonly found outside China.

Second, Chinese MNEs, tend to conform to the local employment relations (ER) customs and thus tend to recognise rather than avoid trade unions in developed economies (Bian and Emons 2017; Xing et al. 2016; Shuqin Zhu 2015). Recent studies have pointed out that although cautious about trade unions, Chinese companies tend to accept the trade unions in their operations of the host countries. Indeed, Chinese employers have not attracted negative attention for their employment relations in their German subsidiaries and are sometimes mentioned for their exemplary behaviour (Bian and Emons 2017). One reason for this is that Chinese MNEs take a relatively
pragmatic approach in dealing with labour market institutions in the host country (Cooke 2012). There are, however, also Chinese companies which transferred their employment relations practices to their foreign subsidiaries aiming to keep harmony and to defuse conflicts in the host countries (Xing et al. 2016). But it seems that fewer Chinese companies operating abroad follow this approach. For instance, the Chinese SOE Shougang in Peru and SAIC in Korea assumed to enter into harmonious and peaceful relations with trade union representatives and both cases ended in tension with the workforce (Bian and Emons 2017). Chinese managers have usually assumed that workers’ representatives would be cooperative. This indicates that Chinese investors have learned from previous mistakes and adopt a more cautious approach towards employment relations in host countries.

A third observation is that Chinese MNEs tend not to be members of European employer associations (EAs) (Shuqin Zhu and Jack 2016). This is in contrast with Western MNEs which tend to be members of local EAs to obtain local HRM-IR information from EAs. Chinese MNEs fail to actively involve EAs in HRM-ER issues. Shuqin Zhu and Jack (2016) suggest that this is because of a lack of knowledge of employment associations' functions. Although EAs can assist, if needed, with clarification about labour regulations, Chinese companies instead tend to consult their local subordinates, lawyers, local government departments, Chinese embassies or the China Chamber of Commerce. Here is a potential for EAs to create awareness and promote their work to Chinese and other foreign MNEs operating in Europe. The underutilisation of local resources, such as EAs, can lead to misunderstanding and conflicts between Chinese management and German subsidiaries as Chinese companies tend to either avoid foreign works council and trade unions or have different expectations of the works council role.
China’s regional diversity

The reason for the regional differences derives from China's approach to reforms. China's transition has been experimental and incremental, guided by some general principles rather than detailed plans. The selection of special economic zones has led to experimentation with a market-based economy and increased competition in some regions more than others. For instance, the Chinese coastal provinces were exposed to market competition earlier than the inland regions (Ding et al. 2000). China consists of a very developed east coast where labour laws tend to be more frequently enforced and Chinese companies are usually exposed to Western management practices. Shenzhen, for example, is located at the more developed coast and has a more bottom-up employment relations approach (Zhang and Peck 2016). In contrast, the inland areas are less developed, the provincial government does not always enforce labour regulations, and fewer Western companies invest in these provinces (which is changing due to the increased labour costs in the coastal area). For instance, the inner province Chengdu has a more top-down ER approach (Zhang and Peck 2016). This created not only an uneven pace of economic development across China’s regions but also noticeable differences among the provinces’ capital and labour markets. Such an uneven development influences Chinese companies in terms of their access to capital and labour from their local markets. The institutional environment, including the finance and labour market, is more developed in the fast-growing cities in the coastal areas than the slower growing cities in China’s inland (Ding et al. 2000; Friedman and Kuruvilla 2015). This suggests that Chinese MNEs from the coastal areas are more likely to receive better financial services and support from their local institutions. They also have access to a better educated but pricier workforce. In contrast, the Chinese ‘inland’ cities have access to a cheaper but less well-educated workforce. Due
to the increased labour competition in the coastal areas, MNEs experience more pressure compared to the inland MNEs during the recruitment process and retaining workers in their company.

As the regional and local governments implemented the general reform plan into their policies, the decentralisation of decision-making and the local enforcement of the law have led to a great diversity of the labour relations at the provincial, city, and village levels (Friedman and Kuruvilla 2015). Local governments have been encouraged to develop their (local) economy which has led to a range of regional ‘models' of capitalism. The city Guangdong, for instance, developed an export-oriented strategy whereby its factories supplied mainly businesses in Hong Kong. Guangdong primarily attracts rural and less educated migrants seeking employment (Gallagher 2011). In contrast, Zhongguancun, a district in Beijing, has become China’s ‘Silicon Valley' attracting higher educated individuals. The local government established a science park in Zhongguancun in the 1980s, and the science park benefits from its proximity to the Tsinghua and Peking University. In general, the local government in Beijing welcomes entrepreneurs, who have built a robust and highly profitable technology and venture capital sector on the ground. Beijing has higher rates of labour productivity and more R&D investment compared to Guangdong (Gallagher 2011). The decentralisation and a degree of unevenness in compliance to the labour laws have led to a variation of labour relations across regions (Chan and Nadvi 2014; Friedman and Kuruvilla 2015). Zhang and Peck (2016) label the differences among the Chinese regions due to China’s model of capitalism as ‘patterned heterogeneity’.

To sum up, the regions in China are managed by relatively independently operating local governments. Local government can, for example, implement pilot projects to test new ideas. The uneven development of China has led to considerable differences
in capital and labour markets across cities and regions. Location therefore has a unique influence on Chinese MNEs in terms of access to capital and labour from the local market. MNEs from different provinces have access to different resources and governmental support. Such regional variations have created a ‘patterned heterogeneity’ of the Chinese model of capitalism in which Chinese MNEs are embedded. The great diversity among regions makes it difficult to understand the Chinese HRM and ER practices and policies of Chinese MNEs. Most Chinese MNEs are, however, from the coastal area. Being aware of local differences in China can help to increase the understanding of Chinese international management.

**Conclusion**

To conclude, China underwent a significant economic transformation from a planned economy to a market economy with Chinese characteristics. China's economic structure still differs significantly from Western economies as in that there is a much larger state sector. Due to China’s economic transformation and the influx of Western companies there is not a distinct Chinese model. At its best it can be described as a mix of Chinese practices, such as *guanxi* and hierarchical thinking, and Western ‘best practices’ such as performance-based pay. HR practices differ between Chinese SOE and POEs. Chinese SOEs tend to be more influenced by the iron system, due to their age and link to the government compared to Chinese POEs.

The Chinese ER institutions, consisting of the ACFTU, CEC, the ACFIC, and local associations are influenced by the state and are rather voices of the Chinese government than of their members (Lee 2009). Instead of representing the interest of the workforce, employee representatives consult management, spread the messages of the CCP, and only care for the social aspects of the workforce. The employment
system varies across China’s provinces and the law is differently interpreted and enforced.

All this has influenced the personnel management to change slowly towards a hybrid HR model of Western and Chinese characteristics (Cooke 2009; Warner 1998, 2003; Zhu and Dowling 2002; Zhu, et al. 2008). For both SOEs and POEs counts that their management system and the role of HR within the company cannot be generalised as it varies across regions, age, and sector. There is thus great flux in how different regions and firms are organised and managed. In this sense, it is impossible to generalise one institutional configuration that shapes the management and organisation of all Chinese MNEs. MNEs cannot be understood without analysing their specific local institutions, ownership, and historical legacies. Therefore, existing MNE studies which assume homogeneity of national institutions, are insufficient to explain Chinese MNEs which are embedded in a much more diverse and variegated institutional environment.
4.2 Chinese foreign direct investment in Europe

What is exceptional is that Chinese companies not only invest in other emerging and developing economies, but also in developed economies. Focusing on Europe, Chinese firms already had investments in all of the 27-member states of the EU in 2010 (Hanemann and Rosen 2012). Although the European share of Chinese OFDI has been small compared to the overall Chinese OFDI, it has increased between 2000 and 2013, see graph 4.1. The positive trend of Chinese FDI is likely to continue and gain greater significance worldwide.

Graph 4.1: Chinese OFDI deals 2003 – 2013. Source: EMENdata

The EU and its members have a significant interest in trading relations with China. China is of importance because it is the EU’s second-biggest trading partner behind the U.S., whilst the EU is China’s biggest trading partner. Chinese FDI in Germany and Europe contributes to new business partners and serves as a new source of investment for businesses, creating employment and helping local businesses to more easily access the Chinese market. Meanwhile, China strives to become a leading
global economy by no later than 2050. The Communist Party prioritises upgrading its industry which is reflected in the ‘Made in China 2025’ strategy. The plan has the goal of enabling Chinese companies to become more competitive and to move up the value-added chain in production and innovation networks. The focus is on sectors which can strongly contribute to the economic growth, including automotive, machinery, robotics, aviation, and medical devices. This industrial policy challenges established economies such as Germany. This section describes the Chinese outward foreign direct investment (OFDI) in Europe.

4.2.1 Description of Chinese FDI in Europe and Germany

Chinese upward investment in Europe is examined with the data of the Emerging Multinationals' Events and Networks DATAbase (EMENdata) which includes greenfield investments, M&As, and other minority investments. The dataset is based on company information from different sources, including the Financial Times Group’s fDi Markets, Bureau van Dijk’s (BvD), Zephyr, and Thomson Reuter’s SDC Platinum (Amighini et al. 2014). EMENdata encompasses all greenfield investments, M&As, and other minority investments deals with Chinese, Taiwanese, and Hong Kong companies worldwide between 2003 and 2013. For the purpose of this study, only the FDI deals from China mainland in the European Union are considered. Overall, Chinese companies invested in 1005 deals in the European Union between 2003 and 2013, of which the majority of 861 deals were greenfields and 144 deals were M&As. Other sources such as MOFCOM and the Rhodium have observed more Chinese M&A deals in Germany.

Chinese investments are concentrated in Western European countries including Germany, the UK, France, and Italy. More recently, related to the Belt and Road
Initiative (BRI), China also has increasingly invested in Eastern and Central European countries. Table 4.1 shows that Germany is the most attractive country for Chinese investment with 348 deals between 2003 and 2013, followed by the UK. Other European countries have attracted less Chinese investments - France (72 deals), Spain (45) and Poland (30) are a few examples of this. The Chinese government's greater support of its SOEs’ international activities compared to POEs is reflected in the difference in OFDI number and amount in Europe. Hanemann and Rosen (2012) estimate that 72% of the Chinese OFDI’s amount in Europe was invested by SOEs, compared to only 28% by POEs for the period between 2000 and 2011. In contrast, 359 of 573 (63%) of the investment’s deals were conducted by POEs and only 37% by SOEs. POEs tend to invest more frequently but in smaller and thus less expensive projects and SOEs have spent more money in fewer but larger projects in Europe (Hanemann and Rosen 2012).

<table>
<thead>
<tr>
<th>Country</th>
<th>Deals</th>
<th>Greenfields</th>
<th>M&amp;As</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>348</td>
<td>323</td>
<td>25</td>
</tr>
<tr>
<td>UK</td>
<td>192</td>
<td>133</td>
<td>59</td>
</tr>
<tr>
<td>France</td>
<td>72</td>
<td>55</td>
<td>17</td>
</tr>
<tr>
<td>The</td>
<td>48</td>
<td>37</td>
<td>11</td>
</tr>
<tr>
<td>Spain</td>
<td>45</td>
<td>40</td>
<td>5</td>
</tr>
<tr>
<td>Italy</td>
<td>43</td>
<td>37</td>
<td>6</td>
</tr>
<tr>
<td>Poland</td>
<td>30</td>
<td>30</td>
<td>0</td>
</tr>
<tr>
<td>Sweden</td>
<td>24</td>
<td>21</td>
<td>3</td>
</tr>
<tr>
<td>Hungary</td>
<td>24</td>
<td>23</td>
<td>1</td>
</tr>
<tr>
<td>Belgium</td>
<td>22</td>
<td>21</td>
<td>1</td>
</tr>
<tr>
<td>Other EU27</td>
<td>157</td>
<td>141</td>
<td>16</td>
</tr>
<tr>
<td>Total EU</td>
<td>1005</td>
<td>861</td>
<td>144</td>
</tr>
</tbody>
</table>

Table 4.1: Chinese FDI in Europe, Source: EMENdata

In Germany, the first Chinese investment took place in 1995. In 2011, Chinese investment has increased by more than eight times from €1.4 billion to €12.11 billion
in 2017 (Hanemann and Huotari 2017b), see graph 4.2. 2016 was the first time that Chinese investment in Germany exceeded German OFDI in China (€10.8 billion versus €6.69 billion respectively, UNCTAD 2018). Between 2003 and 2013, EMENdata registered 348 Chinese deals in Germany, the majority of which were greenfield investments (286) while the remaining deals were mergers and acquisitions. The majority of the greenfield investments represent the first German establishment. The trend was an increase of Chinese M&As deals from one acquisition in 2009 to 36 company acquisitions in 2016. Since the new Chinese elected leaders took office in 2013, the focus of Chinese OFDI in Germany has changed. Jungbluth (2016) reports a clear increase of M&A deals and SOEs investments particularly in the manufacturing and health sector.

Graph 4.2: Chinese OFDI to Germany, 2008 -2017, Sources: EMENdata, Rhodium, Handelsblatt (2018b) for the 2017

In recent years, the quality of Chinese investment in Germany shifted from Chinese companies focusing on the purchase of small German companies that faced financial problems to acquiring companies in possession of cutting-edge technologies and recognizable brands. The majority of the Chinese M&A deals were compatible with China's industrial policy strategy ‘Made in China 2025’. Owing to many of the sales
including the acquisition of key technologies it can be argued that these were efforts to move China up the global value chain.

The most popular sector for Chinese investments was the industrial sector with 62 Chinese deals in Germany (for more details see graph 4.3). Chinese companies also invested in the information and communication, environmental technology and consumer goods sectors in Germany. Germany’s foreign direct investment flowing to China was considerably higher during the same period. The increasing Chinese OFDI to Europe and Germany suggests that the dynamics offer a new exciting research context. Such investment from emerging and developing economies to developed economies is a relatively new phenomenon and is labelled as ‘upward investment’ (Dunning and Narula 2003; Moon 2004).

Graph 4.3: The number of Chinese FDI deals by sector in Germany, 2003-2013, Source: EMENdata
Chinese MNEs tend to adopt a partial or no structural integration. There is little evidence that Chinese MNEs employ corporate control measures to ensure the implementation of home country practices (e.g. Cooke and Lin 2012; Fan et al. 2013; Shuqin Zhu and Jack 2016). One study by Liu and Woywode (2013) focusing on 13 Chinese M&As in Germany find that after the acquisitions, the majority of Chinese headquarters keep the existing German management and the Chinese companies become passively involved in the daily operation by having seats on the supervisory boards of the German companies. The acquired companies have to report back, and regular meetings take place, yet the German operations remain autonomous (Liu and Woywode 2013). However, the final decision remains with the Chinese management (Liu and Woywode 2013). Another study by Cogman and Tan (2010) analysed 120 deals for controlling stakes from the beginning of 2004 to the third quarter of 2008 in Asian cross-border M&As and revealed that more than 43% of the Asian deals involved either limited functional integration or no integration efforts. They argue that the passive managerial approach can be attributed to the relatively low levels of absorptive capacity and cultural-specific influences. Cross-border M&As are one tool to build up individual- and organisational-level competences. This light integration has been labelled as a ‘hybrid approach’ (Kale, Singh and Raman 2009), ‘partnering approach’, or ‘light-touch approach’ (Cogman and Tan 2010, Knörich 2016b; Liu and Woywode 2013; Zheng et al. 2016).

Differences in Chinese SOEs and POEs investing in Europe

The second distinction concerns the motivation to go abroad. Although motivation varies with each company, a rough distinction can be made between POEs and SOEs.

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1 Yet, the integration mode depends on the firm's international experience, sector and motivation entering the particular market (Graebner and Eisenhardt 2004).
Private-owned companies investing in Europe aim to adapt to international standards or to overcome disadvantages at home (Child and Rodrigues 2005; Matthews 2006; Rui and Yip 2008). Such upward investment may strengthen their position in the Chinese market (Ramasamy et al. 2012; Shimizu et al. 2004). In contrast, SOEs tend to target advanced economies for market share and strategic-asset seeking, including the access to brands, technology, distribution networks, expertise, and research capabilities (Buckley et al. 2007). A uniqueness of Chinese companies is that their investment decisions frequently have a spontaneous or personal element such as individual perceptions, relationships (guanxi), and even personal motivations (e.g. immigration and citizenship) (Knörich 2012). These unusual reasons for upward investment question the theoretical assumption that companies operate strategically.

The last distinction between Chinese SOEs and POEs is the OFDI patterns of the two ownership types. While China's government initiated the ‘Go Out' strategy in 1999 to primarily encourage SOEs to internationalise, it only permitted Chinese POEs to invest abroad from 2003 (e.g. Hong and Sun 2006; Luo and Tung 2007). China’s ‘Go Out’ strategy has prioritised outward foreign direct investment in its five-year plans, including the current 13th five-year plan for 2016–2020. The ‘Go Out' strategy has simplified the access to commercial loans and funding from Chinese banks, overseas business service centres, and institutionalised centres providing 'International Business' and foreign languages courses (Buckley et al. 2007; Voss 2011). Previously, for example, Chinese firms had to wait for the approval of their government and were therefore at a disadvantage compared to other bidders in transnational acquisitions. Compared to Chinese POEs, SOEs are more likely to be endorsed by the local Chinese governments for loans, banks might be more willing to lend them money, and they have access to capital and other financial resources at below market rate value (Liang
et al. 2012). To invest abroad, Chinese POEs receive less financial and non-financial support compared to SOEs (Buckley et al. 2008; Cui and Jiang 2012; Tam 2000). Chinese SOEs could start much earlier to invest abroad, and they also enjoy greater governmental support and financial access to invest overseas, compared to Chinese POEs. Such state influence on FDI is to this degree uncommon in the Western world and has increased the attention of the country’s government which receive increasing OFDI from China such as Germany and the US.

4.2.2 The political dimension of Chinese upward investment in Europe

Initially, Chinese OFDI focused on natural resources in developing countries, but, since then, Chinese companies have also become active in developed markets. The key motivation of China’s ‘Go out’ strategy is to upgrade its economy from the world’s workshop to the world’s innovation centre (Jungbluth 2016). To upgrade its economy, China aims to build its own global players through the promotion of OFDI, ensuring the supply of raw materials and energy sources, promoting research, acquiring advanced technology (Wang et al. 2012). Upward investment – i.e. Chinese FDI to developed economies - is a crucial component of this approach, whereby Europe is a focus of the ‘Go Out' strategy. Since the introduction of the ‘Go Out' strategy, China has evolved into a significant partner in the global economy.

Western industrial nations have become increasingly anxious about Chinese foreign direct investment in their own economies and political opposition towards Chinese acquisitions has increased. There are several reasons for the critical observation of Chinese investment in Europe in general and Germany in particular. First, the governmental support of Chinese SOEs and also POEs can be seen as an unfair
advantage to other foreign firms. European lawmakers suspect that investment by Chinese SOEs and POEs can be an extension of China’s government and its aim to become an international leader in innovations (“Made in China 2025” strategy). If viewed as unfair competition, other countries may increasingly block foreign investments by Chinese SOEs, setting the stage for bitter disputes.

Second, infrastructure projects of China’s Belt and Road Initiative and FDI in Eastern and Central European countries reveal a potential pattern to China’s geopolitical approach to Europe. Germany’s former foreign minister, Sigmar Gabriel, warned that China potentially aimed to buy influence over European politics through its investments (Jungbluth 2016). For instance, since the financial crisis, China is a significant investor in Greece. As the only EU member, Greece vetoed a shared EU position on human rights in China at the United Nations (UN) in June 2017. The BRI policies enable Chinese companies to internationalise and allow China to increase its economic and political influence. Foreign policy analysts, such as Blanchard and Flint (2017), meanwhile, view these plans through a geopolitical lens, in which Beijing seeks to gain political leverage. Recently, two German think tanks published a jointly report about Chinese investment in Europe and conclude that China is a threat to Europe’s liberal democracy, values, and interests and that the EU countries have to reinforce their investment screening tools. The political concern in Germany and other European countries increases. Other opponents against an increase in restrictions, particularly the Netherlands and Nordic countries, argue that stricter rules on investment from outside the EU can increase trade tensions. Chinese OFDI in Europe thus creates a general debate about Chinese economic activities in Europe and its political influence in particular.
Third, although China has been a WTO member for 17 years, China still maintains tight restrictions on foreign investment in its own markets. Foreign companies face informal and formal barriers which places them at a disadvantage to domestic businesses. For instance, foreign manufacturers could only enter the Chinese market in a joint venture since 1990. The CCP, thus, deliberately protects strategic industries from international access. In contrast, Germany offers free market access to Chinese enterprises. Germany has cooperated closely with China holding regular government consultations since 2011 to deepen their collaboration. Germany’s interest in China is that it is an important sales market for Germany’s machinery and automobile companies. The change of China’s political and economic strategy in 2013 started the competition of Chinese companies with German firms on the world market and their significant increase of investment into German companies. Chinese acquisitions focus increasingly on critical technologies in the machinery, automotive, health, and environmental sector (EMENdata; EY 2015). The German economy minister, Brigitte Zypries, summarised the German position: "One has to note that these investments are one-sidedly concentrated on hi-tech companies and companies that provide key technologies which shows obvious connections to the ‘China 2025’ strategy decided by the Chinese government" (DW 2017). The changes resulting from these Chinese policy changes increase insecurities and fear of Chinese investments.

The German government and even the European Commission reacted to the purchase of the German robot and equipment manufacturer, Kuka. The German government and the European Commission started to discuss the development of a national and European level structure which can intervene in Chinese political related investment and prevent an intersystem competition. Germany has taken some action by tightening its Foreign Trade and Payments Ordinance in July 2017. It allows the German
government to block foreign acquisitions if they threaten Germany’s security interests. The regulation can be applied to deals that involve the purchase of shares amounting to 25% or higher in German companies which are considered important by the government or critical to the national security. This move to tighten the investment screening regulation followed after the German industrial robotics firm, Kuka was taken over by the Chinese company, Midea in 2016. At the beginning of 2018, the German government applied this law to delay several deals between Chinese and Germany companies. For example, the German government examined a bid from the Chinese SOE, Stategrid, for a 20 per cent stake in 50Hertz, a German energy grid company (Handelsblatt 2018a). A second example is Cotesa, an aerospace company which is due to be bought by the SOE, China Iron and Steel Research Institute Group (Handelsblatt 2018b). In the two examples above, both companies are state-owned Chinese enterprises. However, since the introduction of the German investment review policy in 2004, the German government has only interfered once. The Germany government voted in August 2018 to block the potential purchase of German machine tool manufacturer Leifeld Metal Spinning AG by the Chinese investor, Yantai Taihai Group. This shows that the judgement of German companies to sell shares or bring an investor on board is adequately sufficient for the German government. The German government is concerned with who the investor is, in particular state-owned companies, and which sector they invest in.

Such debates are seen critically by the World Trade Organisation which has warned against resurgent global protectionism and the consequent negative impact on the world economy (WTO 2016).

Although China’s investment in Germany is increasing, German companies have invested in China since the early 1980s and have exceeded the Chinese investment in
Germany except in 2016. There seems to be a fear of competition between political and economic system between Europe and China (Benner et al. 2018), whereby Chinese companies acquire European businesses only to access cutting-edge know-how and other intellectual property. The German government feels that the German economy is threatened by China’s economic ambitions to lose its competitive economic edge in the high-tech industries as Germany’s economic output depends greatly on the manufacturing sector (Wübbke et al. 2016). Therefore, German politicians are concerned with how to protect Germany’s institutional context and economy. Although Chinese investment is not dominating the German FDI inflow and German businesses report positively about Chinese investments, the German government increasingly exerts pressure on Chinese investors.

At the European level, politicians reacted to the Chinese investment earlier this year with a joint Franco-German-Italian statement urging the EU Commission for the protection of the strategic sectors. This statement was initiated through a German think tank that set up a meeting with French, German, and Italian ministers (expert IV). The European Commission has now proposed a draft law that allows coordination of national screening efforts. European Commission president, Jean-Claude Juncker, proposed to increase the coordination of national screenings of sensitive foreign investments by the Commission.

Not only German and European politicians are not the only ones concerned by Chinese investment in Europe. Recently, two German think tanks recently published a joint report titled ‘Authoritarian Advance - Responding to China’s Growing Political Influence in Europe’ where they alert the public about “China’s rapidly increasing political influencing efforts in Europe and the self-confident promotion of its authoritarian ideals” (Benner et al. 2018:2). The two think tanks conclude that China
is threat to Europe’s liberal democracy, values, and interests and that the EU countries have to reinforce their investment screening tools.

The ‘China is taking over the world’ fear is also increasingly prominent in many Western media outlets and Chinese investment in these Western economies is a controversial and political-charged topic. German newspapers frame Chinese investment as follows: ‘Shopping spree: how China is gobbling up small and medium-sized German enterprises’ (Handelsblatt 2016), ”The China Invasion” (Bild 2011), or ‘The Chinese are coming’ (Frankfurter Allgemeine Zeitung 2008, 2016; Handelsblatt 2015). At the beginning of 2018, such debates were again heated when it was made public that the owner of Geely bought a €7 billion (£6.2 billion) stake in Daimler AG – becoming the luxury carmaker’s biggest shareholder. The international media, such as Wall Street Journal, and the German media, such as Focus, wonder what do the Chinese intend to do with Daimler, and Reuters (2018) speculates that ‘Germany could tighten rules after Geely takes Daimler stake’. The German media and public are increasingly concerned that jobs and technology may be transferred to China in the future.

To conclude, Germany is one of the largest recipients of Chinese FDI in Europe. Traditionally, Chinese FDI focused on Western European countries but the investment diversified increasingly to Eastern and Central European countries, in particular through China’s BRI. The majority of Chinese OFDI in Germany is small in its scale and generally originates from private-owned companies in the manufacturing, automobile, health care, and green technology sector. The smaller part of China’s OFDI in Germany, the investment by Chinese state-owned companies, has aroused a strong political discussion about Chinese OFDI in Germany and Europe. European and German politicians, the media, and think tanks fear the unfair competitions of
SOEs, the discrimination of German and European investment in the Chinese market, and the potential (political) influence of the Chinese state through the Chinese business investments in Germany and Europe. Although Chinese FDI can be beneficial for German businesses and workers, the intentions of Chinese SOEs and the potential influence of Chinese government in Europe are increasingly questioned by the German media, the general public, and politicians.

Governmental interventions have created different market conditions between state-owned and non-state-owned companies. Due to their link with the government, SOEs have strong political connections and easier access to financial resources. Both Chinese POEs and SOEs have started to internationalise, but with different kinds of resources. Such support of Chinese SOEs by the government can be seen as unfair competition not only between Chinese SOEs and POEs but also between Chinese SOEs and foreign companies.
4.3 The German context

Compared to China, Germany is a typical coordinated market economy according to the Varieties of Capitalism framework by Hall and Soskice (2001). Its institutional environment is known for its non-market mechanism coordination, such as relational contracting, coordination, multi-employer collective bargaining, works councils, and mutual monitoring through networks. German firms have a somewhat collaborative instead of competitive relationship to build up company's competencies (Gooderham and Nordhaug 2011). Some researchers have reported some signs of erosion of Germany's national business system and a convergence towards more liberal market practices, such as a stronger emphasis on shareholder values and more control structures within companies (Jackson and Sorge 2012; Jackson and Deeg 2012). Also, employer associations experience a decrease in membership, leading to less effective collective bargaining (Jackson and Sorge 2012). However, other characteristics of Germany's institutional environment persist, including long-term orientation of companies, coordination of employment relations, and high-level responsibility for employees (Ferner and Quintanilla 1998; Gooderham and Brewster 2004; Jackson and Deeg 2012).

In the past, the viability of Germany's business system was distrusted to hold its world-leading position in the globalised world economy, in particular in the context of reunification and other institutional changes (Jackson and Deeg 2012). Such doubts have disappeared however, seeing that today, Germany is the most robust economy of the EU. In terms of GDP, Germany was ranked 4th in terms of GDP per capita the world in 2016 (The World Bank 2019). Worldwide, the country is still recognised for its exports of high-quality manufactured goods (Festing 2012). Although the coordinated market economy of Germany is characterised by both institutional change
and continuity (Jackson and Sorge 2012), it is regarded as much more stable in comparison to China.

4.3.1 HRM practices and policies in Germany

In general, HRM has a lower strategic importance to German businesses compared to the US and Japan. The HR work focuses more on administrative and legal issues due to numerous laws and agreements between unions, works councils and the management in Germany (Pudelko 2006). Nevertheless, the German model is considered as modern again and provides ideas for ‘best practices’, in particular the vocational system (Pudelko 2006). The following section examines how some of Germany’s unique institutional features shape the HRM and ER practices, including, recruitment and selection, training and development, pay and performance. Moreover, the context provides a resource for organisational actors to pursue their own interests in corporate negotiations (Edwards et al. 2007; Ferner et al. 2012; Smith and Meiksins 1994).

Recruitment and selection

To attract candidates, large German companies typically pursue an active employer branding strategy whilst smaller companies apply fewer employer branding practices (Kabst et al. 2009). Through the vocational training and dual study programmes, trainees often have a standardised qualification which makes the analysis of skills less important. If apprentices or trainees apply in the same company, their personality and potential are already well-known, the selection process is then less important (Giardini, Kabst and Müller-Camen 2005). The selection processes typically consist of the preselection of resumes, motivation letters, and semi-structured or unstructured interviews. Some larger firms also have assessment centres which includes written
and group tests. Formal selection methods, such as psychological tests or written tests on competencies are less often used (Giardini et al. 2005; Kabst et al. 2009). Besides the formal practices, personal networks have a part in the recruitment and selection process (Benton et al. 2014; Marsden and Gorman 2001). Personal connections matter for both individuals seeking jobs (Granovetter 1995) and employers looking to hire new workers (Fernandez, Castilla, and Moore 2000; Marsden and Gorman 2001). This is similar to the Chinese guanxi that can influence the recruitment and selection of candidates in China.

A unique feature of the German system is that German firms tend to envision labour as a rather fixed factor in the production process whereby retaining talent is of vital importance (Streeck 1995). This long-term perspective of labour is reflected in the fact that Germany has the lowest employee turnover rate (5.3%) among the European countries (Festing 2012). This is in stark contrast with China, where turnover rates of employees can be high. In the manufacturing sector in China, turnover rates range from 20% to 70% (Elfstrom and Kuruvilla 2014). The long-term approach also influences the training and development practices and policies of German companies.

**Training and Development**

German companies are generally focused on retaining and developing employees. The business system encourages the long-term career planning of human resources and the training of skilled workers (Facharbeiter), who are seen as the backbone of the German economic system (Festing 2012). German firms are highly committed to training schemes and thus invest a high proportion in training. This is supported by the Germany policy that every employee can request 5 days for training to attend a self-selected workshop (this training is however not financed by the employers). Thus,
the German education system, the German employers, and state focus on training and education.

Germany has divided its education sector into vocational training and higher education (Bernhard, Graf and Powell 2013; Baethge 2006). It is particularly known for its vocational training, a dual education program combining practical training in the company with theoretical learning in designated schools. Vocational training is a pillar of the partnership between business and the labour force. More recently, an upgraded version of the vocational training was introduced, the dual study program which combines a vocational training certificate with a Bachelor’s degree (Graf 2013). The German educational scheme is recognised as a major strength of German companies (Festing 2012). This system is governed jointly by employer's associations, trade unions, and the state. Germany’s vocational education system has given the country a competitive advantage in the manufacturing and high technology sector in the global market (Culpepper and Finegold 1999). In contrast, China's vocational education programmes have mainly taught migrant workers, varying in their quality, and do not enjoy a high reputation among the Chinese population, especially among the urban and well-educated group (Ling 2015).

*Pay and performance*

The majority of the German workforce has its pay and compensation determined by the collective or company-level agreements. This leads to low wage differentials among employee groups. Compensations depends on the hierarchical level and the associated salary of a specific employee. Higher management is usually not covered by the agreements. Financial participation and performance-related pay is less often applied in Germany companies. Instead, profit-sharing schemes are more frequent among German companies (Festing 2012).
The industrial collective agreements have traditionally determined the pay and working conditions of the majority of employees, including working hours, salary level, and bonuses (Ferner and Varul 1999; Hassel 1999). Trade unions and employers’ associations (or single firms) are responsible for collective bargaining. German unionisation is as low as 17%, but the collective and firm-level agreements covered approximately 56% of the workforce in 2016 (OECD 2017). Since the 1990s, the collective agreements covering employees decreased, while company-level bargaining agreements increased (Kohaut and Schnabel 2003; Streeck and Rehder 2003).

In addition, the German government introduced a minimum wage to support the social protection system in Germany. This new policy strategy was introduced because collective agreements have become less influential in Germany due to the growth of company-level agreements and the decline of trade union memberships. Due to the increased competition from emerging markets such as China and the financial crisis, wages were restrained in exchange for job security. In particular the service sectors payed very low salaries, such as hairdressers. The minimum wage ensures fairer salary conditions in the service sector, where traditionally the coverage of collective agreements competition is low.

The German context - where the majority of the salary structure is determined by the sectoral or firm-level collective agreements - is in contrast with the current individualised pay system in China. While performances-based pay was absent during the ‘three irons system’, it was gradually introduced slowly after the economic reforms in 1978. Additionally, it was later widely adopted in state-owned and private-owned companies to determine not only the bonus but also the salary of employees (Han and Morishima 1992; Yuan 1990).
Employment representation

Germany’s employment representation consists of a dualistic presentation of workers: trade unions represent workers during sectoral or firm-level collective bargaining rounds while works councils represent employees at the workplace (Tempel et al. 2006). Such a dualistic structure provides the workforce with extra representation. The actors of Germany’s employment relations interact on the principle of consensus upon which the collective orientation is based (Dickmann 2003; Streeck 1995).

German workers are organised in three large trade union confederations, as well as some unaffiliated trade unions. The trade unions tend to be unified (Einheitsgewerkschaften), open to all workers, and not aligned according to ideological or political thinking. During a bargaining negotiation round, German trade unions can call on workers to strike, if for instance employers’ associations reject the demand for higher wages and the trade union do not accept the counteroffer of the employers' side. Such action is seen as a last resort for trade unions if negotiations hit a dead end and it is considered as a means to an end to convince employers. German employers usually react to a strike with a settlement or call for a lockout (Festing 2012). In contrast, in China, strikes tend to express extreme dissatisfaction of workers and to initiate negotiations between employers and employees.

Works councils represent employees in the employer-employee relations, having a range of formal rights, including information and co-determination rights (Doellgast and Greer 2007). Works councils can be set up in companies with more than five employees (the Works Constitution Act). Typical issues in which works council are involved are confirming the selection of candidates, dismissals, work organisation, and restructuring. The works council ensures that the employees’ perspective on the company’s decision-making is included. Another result of the works council presence
is a higher degree of employment security by making it difficult to dismiss workers. While the works councils are committed to the interests of the workers and the company, they are not obliged to the interests of trade unions (Behrens 2009).

In practice, the cooperation between the works council and management can vary from attempts by management to bypass or minimise the influence of the works council to establish a respectful co-management relationship (Kotthoff 1998). Such codetermination can increase the productivity of the company by improving information exchange within the company and the redistribution of the surplus (Jirjahn 2017). Works councils can function as the voice of the company workforce, communicating employees’ preferences, employees’ insights of what kind of innovation potentially exists at their workplace and validating the information given by the management to the workforce. If the potential of the works council is exploited, the motivation of the workforce can increase, employees’ fluctuation can be decreased, and management can expect a higher readiness of employees to cooperate and agree to concessions. Overall, works councils can ensure increased workplace security and the commitment of the workforce to long-term goals. Arguably, Chinese companies do not have an equivalent means of employee representation. Chinese employee representatives are part of the management team and a voice for the CCP and do not necessarily stand up for the employees’ interest, in particular if the interest is directed against the employer’s.

As mentioned at the beginning, the German institutional context experiences some changes but preserves its uniqueness. Compared to other countries, Germany keeps a strong focus on long-term employment and co-operative industrial relations in Germany’s core sectors. Yet, these institutional features have also experienced several erosions. First, although Germany is characterised by coordination, employers’
associations have taken less influence on training and collective agreements. Their membership has declined because companies sought more flexibility and aimed to reduce the cost of labour. Second, collective agreements are less influential due to the growth of company-level agreements and the decline of trade union memberships. Due to the increased competition from emerging markets, such as China, and the financial crisis, wages were restrained in exchange for job security. The limited growth of salaries in Germany helped German companies to sustain their export activities in the manufacturing sector. Third, since 1997, the German governments reformed the labour laws to simplify the use of atypical employment, agency work, and fixed-term contracts (extended to 24 months) (Benassi 2017; Jackson and Sorge 2012). State regulations have receded the German IR system which strengthens the power of employers (Benassi 2017). To counterbalance the erosion of the German IR system, works council were modernised to be less bureaucratic. Germany's institutional environment, nevertheless, persists, including long-term orientation of companies, coordination of employment relations, and high-level responsibility for employees (Ferner and Quintanilla 1998; Gooderham and Brewster 2004; Jackson and Deeg 2012).

4.4 Conclusion

To conclude, comprehending the complexity of China is a rather challenging task owning to the country’s transformation from a planned to a market-based economy within a few decades (Carney et al. 2009; Hancke, Rhodes and Thatcher 2007; Napoleoni 2011). The result of China’s uneven transformation towards a market economy with social characteristics has resulted in a ‘patterned heterogeneity’ among its provinces (Zhang and Peck 2016). This makes the context of Chinese MNEs more complex but also more interesting to study. Contrasting, Germany has preserved unique
in institutional characteristics although it has also experienced also some changes. Compared to other countries, Germany maintains a strong focus on long-term employment and co-operative industrial relations in Germany’s core sector.

Relating the Chinese and German context to the study’s framework: China underwent an economic transformation which has changed the system effect. China’s economic transformation has developed differently across the Chinese provinces and therefore the society effect on Chinese enterprises would also vary. Nevertheless, the Chinese and German context present two different system effects where Germany is a supporter of the liberal international economic order and China is not. In particular European politicians and media seem to be increasingly concerned about the difference in economic and political system (system and society effect). These different effects (system and society) are an interesting macro-level influence on Chinese companies operating in Germany.

The institutional differences can provoke challenges between the Chinese HQ and the German subsidiary. This chapter outlined several differences between the Chinese and German institutions (see table 4.2 for an overview). First, the biggest difference between China’s and Germany’s institutions with regard to HRM and ER is the role of trade unions. While the ACFTU is the only accepted trade union in China and rather an internal department for social affairs, Germany has a dual representation system consisting of various independent trade unions and works councils with codetermination rights in their respective companies. Germany’s dual representation system can pose a major challenge for Chinese companies operating in Germany. One on the hand, a Chinese manager may not understand the dual representation system and on the other hand works councils have the local knowledge to restrain the transfer
processes. Additionally, German works councils might face a very hierarchical thinking on the part of their Chinese management.

Second, if Chinese companies aim to transfer pay and performance practices, works councils can use the collective agreements (if applied) to prevent such transfer processes. If German works councils know more about the local policies and regulations than Chinese managers those might have few possibilities to change pay and performance practices in their German subsidiary.

Third, with regard to recruitment and selection both countries seem to have similar practices. In China, recruitment and selection practices can vary among companies but it seems that guanxi can influence the recruitment and selection of candidates. Guanxi may affect German subsidiaries twofold. One way in which this may occur is through the selection of Chinese expatriates which can be influenced through guanxi. This could lead to less skilful Chinese managers being send to German subsidiaries. Additionally, if Chinese managers are involved in the HR work, such informal practices can impact the recruitment and selection outcomes of local staff. Such practices are less common in Germany although personal connection may help in the job search (e.g. Marsden and Gorman 2001).

Fourth, Germany’s vocational education system is recognised worldwide and has given the country a competitive advantage in the manufacturing and high technology sector in the global market (Culpepper and Finegold 1999). The high skill level of German manufacturing workers and engineers may weaken the credibility of Chinese expatriates, but this is one reason why Chinese companies invest heavily into the German market. There is a potential for synergies (such as reverse transfer processes and multi-cultural project teams) and may become a source of conflicts as German employees do not except the Chinese management.
<table>
<thead>
<tr>
<th></th>
<th>China</th>
<th>Germany</th>
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<tbody>
<tr>
<td><strong>Institutional dynamic</strong></td>
<td>• Dynamic&lt;br&gt;• Varying among regions and companies</td>
<td>• Relatively static and stable</td>
</tr>
<tr>
<td><strong>Government</strong></td>
<td>• Central to ER&lt;br&gt;• Influences businesses through its long-term plans (e.g. 5 years plans)</td>
<td>• Coordination partner</td>
</tr>
<tr>
<td><strong>Trade unions</strong></td>
<td>• ACFTU, the official trade union,</td>
<td>• Different independent trade unions&lt;br&gt;• Works councils at company level</td>
</tr>
<tr>
<td><strong>Pay and performance</strong></td>
<td>• Varies among companies and regions&lt;br&gt;• Performance-based pay typical in factories&lt;br&gt;• Minimum wage</td>
<td>• 50 percent of the workforce covered by collective or firm level agreement&lt;br&gt;• Minimum wage</td>
</tr>
<tr>
<td><strong>Recruitment and selection</strong></td>
<td>• Varies among companies and regions&lt;br&gt;• Global best practice, such as standard interviews&lt;br&gt; • <em>Guanxi</em> can influence recruitment and selection process</td>
<td>• Anglo-Saxon company branding strategy and practices&lt;br&gt;• Structures or unstructured interviews, but assessment centres and psychological tests less common</td>
</tr>
<tr>
<td><strong>Training and development</strong></td>
<td>• Varies among companies and regions&lt;br&gt;• Higher education lacks standards of OECD countries&lt;br&gt;• Low quality vocational training</td>
<td>• Coordinated dualist education system (e.g. vocational training and dual study)&lt;br&gt;• Developmental career approach</td>
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Table 4.2: Summary of Chinese and German institutions with regard to pay and performance, recruitment and selection and training and development practices

As pointed out in the introduction of this chapter, actors draw on different resources of power to negotiate and influence developments in their interests. The power sources are typically located at the headquarters within MNEs which can shape the decision-making processes. Several characteristics of the Chinese context can undermine this power level. First, the motivation for Chinese companies to enter the German market
is to access critical resources, such as technology, expertise, highly qualified personnel, and brands (Jungbluth 2016; Knörich 2012). This reason for Chinese companies to enter the German market reduces their power as the Chinese investors want something from their German subsidiary.

Second, the Chinese higher education system in general and the business studies in particular tend to be of lower quality compared to other developed countries (Fleisher et al. 2011). Also, companies tend to undervalue training (Shen 2005; Shen and Darby 2006). The lack of quality in China’s higher education system company-based training influence the quality of management skills of Chinese expatriates. Chinese expatriates also lack international experience as well as knowledge of the host country (Spigarelli et al. 2013; Zhang et al. 2014; Shuqin Zhu 2015) which can lead to a number of misunderstandings, general clumsiness, and general frustration on both sides.

Third, the country of origin, in general, can be disadvantageous as China's stigmatisation and the concern over Chinese investment intentions raise concerns among the German public, media, and politicians (Jungbluth 2016; Benner et al. 2018). Indeed, Ferner et al. (2012), for instance, points out that this interrelationship between the global system and national institutional spaces has implications for the power resources of MNEs and subsidiaries. If local actors of German subsidiaries oppose the transfer processes from Chinese headquarters, they can draw from the institutional and market context to resist such transfer processes. For instance, Geppert and Williams (2006) and Almond and Ferner (2006) present evidence on how the German system of employment relations provides actors with resources to resist either actively or passively foreign HQ strategies either actively or passively. German institutions provide employees with strong labour laws, the dual representation system of trade unions, and works councils with institutional resources, as well as the
vocational training (Andersson and Forsgren 1996; Dörrenbächer and Gammelgaard 2010; Sorge and Rothe 2011). Such practices can be used by local actors in German subsidiaries and the macro level influences can be used to oppose transfer processes. China's context may affect the Chinese management of German subsidiaries in several ways. First, the informal institutions, such as guanxi, impact China's recruitment market as employers recruit new employees through guanxi. Second, the Chinese hierarchical thinking can create a distance between Chinese expatriates and the local workforce. Third, the labour force has enjoyed excellent basic education but lacks the benefits of a formal training system and high-quality higher education. In addition, Chinese managers tend to have (very) little international experience. This situation leaves Chinese managers underprepared for international assignments and unaware of the possible HRM challenges overseas. This shortage of managerial skills creates an institutional distance between the Chinese MNEs and their host countries (e.g. Shuqin Zhu 2015). Such generalisations have to be treated with caution as HR and ER practices and policies are handled differently across Chinese regions and ownership types. The following section examines the characteristics of the six studied cases and the market context in which the Chinese MNEs operate in Germany.
5. Organisational context - description of the case studies

The influence of the system and institutional level was examined in the previous chapter. China distinguishes itself by means of varies economic and employment relations at the company level (state-owned and private-owned companies), provincial level, and the government involvement in the business system as well as the recent internationalisation of Chinese companies. First, with regard to ownership types, Chinese state-owned enterprises (SOEs) remain more prone to both government intervention, and political pressure compared to China’s private-owned companies (POEs) (Zheng et al. 2006). Chinese state-owned enterprises (SOEs) still enjoy greater state benefits, such as gaining access to bank loans more easily compared to Chinese POEs (Buckley et al. 2007; Cui and Jiang 2012; The Economist 2017). This has led to Chinese SOEs investing more money and choosing bigger deals in Germany compared to Chinese POEs investing in Germany. Second, the Chinese province can also be an influential factor for Chinese MNEs as each province has developed at a different pace. The coastal areas with special economic zones have been opened first to foreign direct investment while economic development came to the inner provinces later. Third, the Chinese government influence remains prominent in the economy. For instance, the Made in China 2025 is a political push to modernise China with the help of innovative manufacturing technologies (“smart manufacturing”). The political influence of the Chinese government on the internationalisation of Chinese companies is a politically charged topic in Germany and Europe. Fourth, the recent development of Chinese outward foreign direct investment (OFDI) is a unique feature.

In general, the headquarters of an MNE hold the power to shape corporate cultures, codes of practice, and standard operating procedures. Such powerful resources can be
transferred through, for example, the training of management and sending expatriates to foreign subsidiaries. Informal processes can somewhat influence actors of foreign subsidiaries more than formal policies (Ferner 2000). Through the allocation of key resources (e.g. finance, investment, knowledge, and expertise), the HQ ensures not only the economic security and survival of its subsidiaries, but it can also control the career opportunities and bonuses of key subsidiary actors, and also the power of resources of subsidiary actors (Dörrenbächer and Geppert 2009).

The question is the extent to which Chinese companies exert control over their overseas subsidiaries. Knörich (2010) and Liu and Woywode (2013) report that Chinese acquisitions in Germany prefer to follow a light-touch approach. Other studies focusing on IHRM of China concludes, that the Chinese management lack capabilities and international experience to manage their foreign subsidiaries (Cooke 2012; Cooke and Lin 2012; Fan et al. 2013; Spigarelli et al. 2013; Zhang 2003; Zhang and Edwards 2007).

Although the HQ has control over many processes, resources, and meanings, subsidiaries can also access power resources and have an influence within their MNE. The transfer process of Chinese companies can also be affected by the power capabilities of the receiver unit, the German subsidiaries – which have to be seen as relative to those of their HQ (Ferner et al. 2012). For example, a subsidiary with significant power resources can shape the development of the policies or practices within the MNE and can negotiate to some level with HQ on its role. Examples of such power resources owned by foreign subsidiaries are the delivery of a substantial proportion of the MNE's profit (e.g. Edwards et al. 2007), access to key markets, and the possession of significant knowledge, expertise, or functions for the MNE’s success (e.g., Andersson and Forsgren 1996; Dörrenbächer and Gammelgaard 2011).
subsidiaries possess such power resources, subsidiaries’ actors can utilise those to shape decisions. German subsidiaries provide the Chinese owner with access to the German and European market (Jungbluth 2016). In addition, Chinese companies tend to invest in Germany to gain strategic assets, including access to knowledge, brands, networks, and expertise which increases the power of the German subsidiaries. These kinds of strategic goals may increase the negotiation power of actors from the German subsidiaries.

This chapter introduces the organisational background of the six case studies. The here developed theoretical framework focuses on how actors of multinational companies, embedded in the system, institutional, market, and organisational context, mobilise resources to shape the human resource management (HRM) and employment relations (ER) practices in the foreign subsidiaries. This chapter will focus on the organisational and market context of each case subsidiary. These case studies share the following commonalities: 1) the Chinese owners have rapidly internationalised relatively recently and thus have few managerial experiences abroad, 2) they focus on learning and asset seeking, and 3) the majority of the case subsidiaries are not profitable. This chapter examines the extent to which the Chinese parent companies control the resources of their German subsidiaries and to what extent the German subsidiaries operate independently. To assess the role of the subsidiaries, the chapter focuses on the motivation, the business strategy, products, and the business interaction between the German subsidiary and its Chinese parent company.

The following section introduces the six German case subsidiaries owned by Chinese SOEs and POEs. The section focuses on: 1) the history of each case, 2) the motives of the Chinese companies to invest in Germany, and 3) and the current market situation of the subsidiary, including the management team, the role of expatriates (if
applicable), and relevant control mechanisms. The second part of this chapter compares the German subsidiaries assessing their similarities and differences.

5.1 Description of case subsidiaries

5.1.1 Background of AutoCo and its state-owned parent company

Founded in 1980s, AutoCo is a manufacturing subsidiary which was owned by a German conglomerate. AutoCo manufactures and customises high-end products for customers in the automobile sector as described by the CEO of AutoCo: “We offer lightweight solutions of various materials, but our main focus is steel, and our main customers are in the automobile sector.” The subsidiary was sold to a Chinese steel cooperation in 2012. The new parent company is a state-owned company owned by a provincial government. At the time of the acquisition, AutoCo was the market leader in its field with a global market share of about 40 per cent, annual sales of €700 million, 14 factories in Europe, Asia and America, with 950 employees worldwide and 600 employees in Germany.

Wanting to optimise its portfolio and reduce their debt, the German parent company decided to sell AutoCo in 2011. Meanwhile, the Chinese SOE was looking to buy a foreign company in the automobile sector. The Chinese SOE acquired the company for approximately €700 million in 2012. The Chinese government had encouraged M&As in these industries at the time and the chairman of the Chinese SOE was eager to buy foreign assets to start the internationalisation of the company.

Although the German parent company was eager to sell AutoCo, the works council of AutoCo resisted the decision but could not prevent the sale. AutoCo’s works council recalls the announcement: “But when I realised that the company was going to be sold, that was a big blow for me. We have been deeply integrated in the German
company using the services of our former parent company. It was inexplicable, why they wanted to sell us. We were again and again distinguished as the best subsidiary with huge profit margins. Of course, the market became more difficult. Nevertheless, we have always been portrayed as such a shining star. (...) The sell was inexplicable to me.”

His lack of understanding and his perceived contradiction of the sale with the former parent company's strategy can also be read in a comment of a newspaper article about the former German parent company by the works council representative.

Although the deal was hindered by AutoCo’s works council, they helped initiate a legally binding best-owner agreement between AutoCo’s management and the Chinese investor. The concessions made by the Chinese investor to AutoCo’s workforce included that the workforce and the location of production would remain in Germany. This way the workforce in Germany was given an employment guarantee in Germany and it helped to maintain the strategic development of AutoCo for the subsequent five years. Also, the agreement ensured training and further education, profit sharing, collective bargaining coverage and explicit investment commitments.

The motivation to invest in AutoCo

The new Chinese parent company of AutoCo was founded in 1958. It was a state-owned corporation owned by an inland Chinese province. The SOE company produced high-end steel products, employed more than 80,000 individuals in 2016 and was one of the largest companies in the steel sector in China. Before AutoCo, the company did not operate internationally and acquiring AutoCo was their first foreign investment.
Although AutoCo’s Chinese parent company is one of the largest companies in the Chinese steel sector, the company reported a loss of 1.12 billion yuan in 2015. A large Chinese rival with more modern equipment, management and a long-term strategy announced that they would merge with AutoCo's Chinese parent company in 2016 but the details of the merger have not been revealed yet and currently, AutoCo is unaffected by the acquisition of its parent company.

The Chinese parent company has several reasons to invest in Germany. The interviewees identified four main motives for the Chinese SOE to acquire AutoCo and this will be outlined in the following section: 1) state support for such acquisitions, 2) international ambitions, 3) market access, and 4) gaining expertise.

First, the Chinese Party focuses on foreign M&As particularly in the automobile sector in their previous five-year plan. The Chinese SOE took advantage of this window of opportunity where the Chinese government supported such transactions and AutoCo was to be sold. This opportunity enables the acquisition of AutoCo in the first place.

Second, AutoCo’s parent company had planned to internationalise as the vice chairman stated: “Acquiring AutoCo is the first step of the internationalisation of the Chinese SOE.” Indeed, the Chinese SOE invested in a new factory for AutoCo after the acquisition which was a good sign for the acquired company. The best-owner agreement, however, compelled the Chinese headquarters to commit to the investment.

Third, the company intended to access the German and European market through the acquisition. The interviewed Chinese expatriate stated: “They [the company] want to go to the European market to sell their products, in particular, high-end products [in
the automobile sector]. This is more profitable.” The company intended to focus on the automobile sector because its product sales slumped in other business areas and they perceived the automobile sector as profitable. Had the company not acquired AutoCo or another European company, the process of gaining access to the German market and its premium customers would have been challenging, long-standing and costly. This acquisition enables the Chinese state-owned company to have a foothold in the European market, and to conduct research about customers, the market, and quality standards in Europe.

A fourth motivation was to access AutoCo's industrial know-how. The company acquired mainly raw resources and lower-end production sites in China. AutoCo is a specialised manufacturing unit and is the first acquisition of a high-end overseas business. Such a purchase is a strategic move by the Chinese parent company to access knowledge, technology and prepare for developing a new division.

**Management of AutoCo**

After the acquisition, AutoCo was not integrated into the Chinese parent company. Instead, the German subsidiary underwent a cultural change from being a subsidiary and supplier of a large conglomerate to becoming a middle-sized German firm. The majority of managerial practices were adopted from the former German parent company, including the HRM and ER practices and policies. The German side has thus been granted a high level of autonomy and independence from the Chinese acquirer.

The subsidiary is controlled by three Germans in management. AutoCo introduced this new three-member German management team after the acquisition due to the retirement of the previous manager. The management team has no previous
experience in the sector, and therefore they do not have their own supplier and customer network in the sector. There has been no Chinese expatriate managing AutoCo since the acquisition. The German manager who stayed on as CEO of the businesses enjoyed a high degree of autonomy over AutoCo’s daily operational decision-making.

Two Chinese expatriates are working at AutoCo. First, a Chinese project manager, who aims to understand the planned projects and assesses whether the subsidiary requires additional investments. He is responsible for explaining AutoCo’s projects and financial requests to the Chinese headquarters. The Chinese project manager is not involved in any of AutoCo's projects or its operative business. His tasks are to gather information, translate documents, and draft project proposals. He described himself as a “translator” for the Chinese headquarters. The second expatriate is a Chinese engineer team leader who stayed for six months at AutoCo to learn from the local workers of the new factory. He has a clear mission to absorb knowledge and practices and transfer the knowledge to the Chinese SOE. Both expatriates have an observant role and do not take control of AutoCo’s operation. Besides the expatriates, there is no cultural integration programme organised by the Chinese headquarters to integrate AutoCo. Additionally, none of AutoCo's employees were sent to the Chinese headquarters for an extended period.

The Chinese headquarters is perceived by the interviewees as passive and remaining in the background which enables AutoCo's management team to keep local practices and resist most influences by the Chinese company. AutoCo is an independent subsidiary and the local management team and the HR department enjoy a high degree of autonomy. AutoCo's HR manager stated: "The bottom line is that it has brought relatively little change. Especially as far as the fears are concerned." The
management board consults with the Chinese parent firm about more important, strategic issues and financial investment and the Chinese HQ set up regular meetings with AutoCo’s management team. There is no local supervisory board, but AutoCo's management has a seat on the supervisory board of the Chinese parent company. The management team reports on a monthly basis to the Chinese headquarters about finances and firm’s performance. Owing to the small influence of the Chinese owner, the local management team can operate independently at AutoCo and does not need to use their power resources to resist transfer processes. The Chinese management controls AutoCo thus impersonally and implicitly and AutoCo's output is measured against its targets in this way. However, since the acquisition, AutoCo has become unprofitable and the Chinese SOE has financially compensated for its annual losses. AutoCo is in a tricky situation with no obvious quick solution to becoming profitable again.

Since the acquisition, several developments took place. First, the Chinese parent company complied with the stipulations of the ‘best owner’ agreement with AutoCo. The Chinese HQ invested a large sum into AutoCo by building a new factory. In addition, the new parent company paid for AutoCo’s annual losses of €18 million because one of the ‘best owner’ agreement’s stipulations obligate the Chinese SOE to compensate any losses incurred during the first five years. Furthermore, as the ‘best owner’ agreement protects AutoCo’s employees for the first five years after the acquisition the Chinese parent company requires AutoCo not to fire any employees due to its unprofitability.

Second, AutoCo hoped to access the Chinese market with its new owner and to strengthen its market position but instead, AutoCo’s global market share decreased after the acquisition. The German CEO thought: “We have the opportunity to develop
new products and divisions and secure our market position with the help of the Chinese SOE.” This is a typical expectation of German companies being sold to the Chinese (Knörich 2016b). These possibilities were nevertheless not realised even three years after the acquisition.

Third, AutoCo has not generated any profits since its acquisition. The new Chinese parent company gave AutoCo guidelines to reduce its losses, but the management says it could not actualise such costs reduction. They state that they could lay off personnel and lowering instruments and maintenance costs by a few millions but this would also reduce their product quality.

AutoCo’s actual problem lies within its current business model. AutoCo depends on the supply of raw products from its parent company for a price under the market value. Until they were acquired, they received their raw materials and products from their German parent company. Their competitors have the same business model where they receive their raw materials and products from their respective parent company. While the Chinese owner can deliver its steel products to AutoCo in principal, it is not able to supply materials to the standard of quality required by their customers. Although the Chinese parent company is described as a producer of high-quality products, interviewees from AutoCo mentioned that the quality of the Chinese products was lower than expected. The quality of the products from the Chinese company was even so low that it was not even sufficient for AutoCo to supply the European market. The Chinese parent company aims to supply AutoCo's customers with their material in five years’ time but one of the works council members doubts this: “Their aim is unrealistic! They will not manage this! I do not see any progress or results since they acquired us. The trial shipment of their material was catastrophically. The quality standard was from 25 years ago.” AutoCo’s weakness is thus that currently and in the
they have to buy their raw materials and products from its competitors who have subsidiaries producing similar products. Purchasing from the open market caused AutoCo to generate losses and be non-competitive. The only way AutoCo reduce their costs and resume their competitive position on the market was by purchasing the necessary raw material from its parent company – of they were to the required standard. AutoCo and its parent company thus face a dilemma.

These developments threaten AutoCo’s survival especially after the ‘best owner’ agreement expires. In the foreseeable future, no further integration of production between AutoCo and its parent company seems possible. AutoCo has, therefore, no profitable business model as it cannot obtain the products under the market value from its parent company. The Chinese SOE of AutoCo overestimated its own product development and did lack the knowledge of the local market, including the required product quality for AutoCo’s European customers. The current lack of quality of the Chinese owner’s jeopardises AutoCo’s future. The HR manager adds: “They [the Chinese owner] also have a hard time understanding our business models and mentality. There is a high learning effort. But we also have a shareholder who has made his first noteworthy foreign acquisition. They also pay their dues. They have to learn a lot.” Neither AutoCo nor the Chinese SOE have found a solution for this problem and AutoCo remains unprofitable and its future thus uncertain. While the Chinese SOE intends to keep AutoCo and seems to plan to not leave the location or to dismiss the majority of the workforce, AutoCo’s workforce is concerned about the future of its location and whether the Chinese might transfer the technology to China after the ‘best owner’ agreement expires. AutoCo's business dilemma weakens both the local management and the Chinese owner. AutoCo is disappointed that the parent
company cannot deliver the required quality for its materials and the parent company is displeased that AutoCo is profitless.

According to the works council leader, the relationship between the Chinese headquarters and the German management is fragile at the moment. The works council leader commented: "They [the Chinese HQ] trust neither the German management nor me. They do not trust anyone. They feel that the German managers are not honest with them and do not show them everything. I cannot blame them because that is the way it is.” The reason for the mistrust towards the German management is that AutoCo was spruced up for the sale and has not fulfilled the expectations of the Chinese owner. The works council took advantage of the weak relations between the German and Chinese management by building a relationship with the Chinese management team through regular meetings, updates, and voicing their opinion. While the works council has no seat on the Chinese supervisory board (but aims to attain one), it seeks contact not only with the German but also the Chinese management team to gain information and to influence the decision-making process. Compared to the German management team, the advantage of the works council is that they have an established network in the sector and extensive experience in the company and sector and can be an asset for the Chinese owner.

The efforts by the works council in building a relationship with the Chinese HQ may still pay off. While there were no Chinese managers present at AutoCo during the fieldwork, the German CEO has retired shortly after the fieldwork. As new CEO, a Chinese manager from the AutoCo's Chinese subsidiary was appointed by the parent company. This change can imply that AutoCo's parent company will have an increasing influence on them. Building a relationship with the Chinese management team after the acquisition seems to have paid off for the works council. The new CEO
has already made contact with the local German works council leader before starting his new position and furthermore has invited the works council to co-operate together in the future. A collaborative relationship between the Chinese CEO and works council can increase the Chinese CEO's influence in AutoCo and also the works council's influence on the decision-making by the Chinese parent company about AutoCo’s future. The appointment of a Chinese CEO is a sign that the Chinese headquarters aims to influence the German subsidiary more directly and to reduce the autonomy of the local management team’s decision power.

5.1.2 Background of HeavyCo and its state-owned parent company

HeavyCo is a manufacturer of driving systems, and like AutoCo, it is a former division of a German conglomerate. The former German parent company decided to carve out HeavyCo together with some other units in 2006 to form a new independent entity, here labelled as HandlingCo. After the separation, HandlingCo was sold for about €4 billion to a partnership of two private equity firms which planned to go public with HandlingCo but failed because the global market collapsed and HandlingCo experienced a massive plunge in sales in 2008/2009. The tense global market did not allow to go public with HandlingCo. Instead, HandlingCo sought an alternative in 2010 to become financially independent of the private equity firms by seeking a strategic cooperation with Chinese SOEs from the same sector.

An interviewee at HandlingCo illustrates why the cooperation between HandlingCo and the Chinese SOE began: “In 2011, the talks about strategical collaboration between HandlingCo and the Chinese SOE started. The CEO of HandlingCo has been a former CEO of a German competitor who has previously worked closely together with the Chinese investor. The CEOs of HandlingCo and the Chinese SOE have known
each other for more than 15 years, and they get on well. (...) The good relationship between the two CEOs was one main factor for the cooperation agreement and the foundation to building a trusting relationship between the two companies.”

By cooperating with the Chinese SOE and selling HeavyCo’s share, HandlingCo was able to uncouple the organisation from the private equity structure and gain financial liquidity. In 2012, the framework agreements were signed by HandlingCo and the Chinese SOE and HeavyCo became a Chinese subsidiary.

Several newspapers quoted the Chinese CEO commenting on this acquisition: “We came to stay here! [This Chinese SOE] lacks expertise [...] and access to the European and North American market and HeavyCo wishes for access to the Chinese market. The two companies are thus a perfect match.”

The Chinese management seems to have a sustainable investment concept. HeavyCo’s products complement the portfolio of the Chinese SEO which uses HeavyCo’s products in their vehicles, such as trucks, busses, and road construction machinery to supply the Asian market. The Chinese SOE is perceived as a long-term owner who supports HeavyCo’s business strategy in contrast to the previous American finance investors who focused on the financial gains and were not a producer in the market themselves. The leader of HeavyCo’s works council assesses the prospect of this deal: “This [acquisition] has to give good returns [to the Chinese owner] at one point. We believe, therefore, that it [the acquisition] is a long-term investment otherwise they would not have built the new factory.” It has to be noted that this investment for the new factory was a requirement of the acquisition agreement between the Chinese SOE and the works council.
Motivation to invest in HeavyCo

The background of the provincial Chinese SOE is that it was founded in 1946 and it has a tradition in manufacturing engines. Nowadays, the company is one of the largest engine producers in China, and it focuses on power systems and automobile electronics for trucks, buses, construction and agriculture machinery. The Chinese parent company has a strong position in its home and the Asian market. This is due to its enjoying governmental support on the one hand and then its rapid growth in the Chinese market on the other.

The SOE started to internationalise in 2006, first in Austria, then in Germany and finally in France and Italy. The Chinese SOE owns many well-known brands in China and abroad. Additionally, it has six global operations centres including R&D centres in Germany, Italy, France, the United States, Singapore, and India.

The majority of interviewees at HeavyCo identified four main reasons as to why the Chinese SOE invested in HeavyCo. The works council of HeavyCo replied to the question initially with: “The question sounds so simple, but the answer is not that simple. [...] At that time, it was tough to figure out the motivations, the reason, the thoughts behind the acquisition.” The following section outlines the four motives of the Chinese SOE observed by the interviewees to acquire HeavyCo: 1) gaining international experience and training, 2) accessing the German market, 3) obtaining technology, and 4) strengthening its financial performance.

First, the Chinese owner of HeavyCo aims to gain international experience. The HR manager commented: “They lack international experience not only in the production, research, and development but also in the HR division. The Chinese aim to learn from the German subsidiary that is the primary motivation of the Chinese owner.”
works council indicated that the Chinese HQ poses numerous inquiries into HeavyCo’s works council about workplace health, safety regulations, and the apprenticeship system. Besides the everyday inquiries by the Chinese expatriates at HeavyCo, HeavyCo’s work council exchanges their ‘best practices’ with the Chinese HQ at least once a year.

Second, the Chinese state-owned company invested in HeavyCo to access the German, European and North American market. The business developer states: “The motivation for accessing the market is obvious because the new parent company has built a new sales channel for their products (in particular motors) in Germany.” While the Chinese SOE has also gained market access to Europe and North America by buying HeavyCo, it has not (yet) sold its own products in Germany. In the US, the Chinese parent company is more successful in marketing its own products in the local market. The sales of the Chinese parent company’s products work better in the US than in Europe. The parent company’s products and HeavyCo’s products from Germany are currently not sold together.

Third, the acquisition is a strategic investment to gain access to technology, industrial politics, and general industry knowhow. The Chinese SOE invested in HeavyCo to buy access to advanced technology and the technical know-how of HeavyCo’s engineers. A consultant of HandlingCo states: “HeavyCo is the technological aspect of the cooperation to expand the product portfolio of the Chinese SOE.” At the moment, it appears that they do not merely want to withdraw knowledge and expertise, but they aim to transfer HeavyCo products and know-how to the Chinese market. The advantage is that products of HeavyCo are supplementary with the Chinese SOE to be able to offer complete solutions to their customers.
The works council remarks on the motivation to access technology and expertise: “The advanced technology of HeavyCo is of importance for the Chinese SOE as they hope to dominate the Chinese market with such technology. The Chinese stress that our [HeavyCo] products play an important role in their corporate group. We have products which they don’t have. Our portfolios supplement each other. The expertise of HeavyCo is well respected. For example, the Chinese HQ has a presentation centre in China where they show HeavyCo’s products. HeavyCo delivers components which the new parent company lacks.”

One of HeavyCo’s engineer states: “The advanced technology of HeavyCo is of importance for the Chinese SOE as they hope to dominate the Chinese market with such technology. The know-how of HeavyCo is well respected.”

The acquisition can be seen as strategic. It is not only a financial investment but also an exchange of technology and R&D expertise between China and Germany.

A fourth reason to invest in HeavyCo is that in 2012/2013, the Chinese party made a political decision to support Chinese companies to internationalise and acquire foreign companies. The Chinese cash reserves were high on foreign exchange in China at that point so that foreign acquisitions were supported by the Chinese government. It seems that the Chinese parent company of HeavyCo took this opportunity to invest both in HandlingCo and HeavyCo.

**Management of HeavyCo**

Compared to AutoCo, HeavyCo is larger, currently employing 1100 individuals working across five production sites in Germany, China, the US, France, Italy, Spain and the UK and has an international sales network and service partner network. Since 2015, the company has a joint venture in China where it controls 51 per cent of the
shares, and the Chinese parent company holds 49 per cent of the business. The joint venture serves as a common sales channel, product development and manufacturing site in China.

At HeavyCo, the German management team has continued to work at the German subsidiaries after the acquisitions. The local management team has retained its authority through its local knowledge and network. The company copied the management structure of its former parent company, HandlingCo, including a supervisory and advisory board. At HeavyCo's supervisory and advisory board two seats are held by Chinese managers from the parent company; the chairman of the Chinese parent company and one Chinese manager who works at HeavyCo since the acquisition and is the representative of the Chinese parent company in Germany. The operational influence of the advisory board and the shareholder representative is limited. They set priorities in the advisory board. Beside the advisory and supervisory board meetings, HeavyCo's managers have regular meetings with the Chinese CEO and the Chinese manager at the headquarters. The German management team makes all operational decisions and reports to the advisory board every month.

The management team and the works council visit the Chinese headquarters on an annual basis. HeavyCo's former company made sure during the acquisition that the works council had a seat on the supervisory board. Owing to HeavyCo's size, the inclusion of the works council in the supervisory board is not required by the German regulations. By including the works council in the supervisory board, the former German parent company of HeavyCo not only provides the works council with more influence through its seats at the supervisory board but also enhances the influence of the German management team towards the Chinese owner. The principle
collaborative relationship between the German management team and the works council increases their respective abilities to shape decisions at HeavyCo.

In contrast to AutoCo, the cultural control approach to HeavyCo is more extensive through socialisation and networking. Yet HeavyCo, too, is managed independently. The HR manager summarises: "We have a high degree of autonomy. We have to comply with the requirements of the financial reports to the parent company, purely from the financial key figures point of view. However, we have no great organisational interactions. This lack of management is because the parent company has only one holding company in Europe, but no own corporate structure. As a result, they are unable to integrate companies in Europe. Lacking international experience makes the integration very difficult at least at the moment."

AutoCo and HeavyCo share several similarities. First, HeavyCo also underwent a cultural change from being a subsidiary and supplier of a conglomerate to be a middle-sized firm at the open and competitive market after the acquisition. Second, the subsidiary has also kept its German management team. Third, the German subsidiary has been granted a high level of autonomy and independence from the Chinese acquirer. The German managers who stayed on as chiefs of executive, sales, operation officers have autonomy over daily operational decision-making. The management reports regularly to the Chinese parent company about the financial situation and performance of the firm while also consulting the Chinese management about more important, strategic issues. Fourth, the majority of the HRM and ER practices and policies were adopted from the former German parent company. Fifth, the Chinese HQ also invested in HeavyCo as the best agreement stipulated that. The Chinese owner invested €250 million in HeavyCo, of which €80 million was used to building a new factory and offices.
For the most part, the employees mainly welcomed the change of ownership. The HRM manager describes this period in the following way: “At the beginning, there was euphoria among the workforce.” Such an investment is a positive sign for the acquired company. After the acquisition, HeavyCo's profit however collapsed due to high amortisation in 2013 and 2014. There was the hope to access the Chinese market with the help of the Chinese parent company, but this has not been realised up until today. In addition, the global market also significantly declined in 2013/14 which hit HeavyCo hard and led to a restructuring programme.

The reaction to the collapse in sales was that HeavyCo’s management and works council worked together to implement several measurements to absorb the shock. The works council leader sums this phase up with: “We muddled through!” First of all, HeavyCo introduced Kurzarbeit (Kurzarbeit means the temporary reduction of the regular working time in a company because of cyclical reasons (in most cases). It may affect all or only some of the employees of the organisation (Bundesagentur für Arbeit 2018), exhausted the working time accounts, and reduced the working time. Second, since 2015, the management has successively cut 350 jobs from 1450 to 1100 which is about 25 per cent of the workforce.

Since the end of 2016 HeavyCo’s situation has become stable and the turnover develops positively. Currently, HeavyCo has a balanced performance result and no losses since 2015. In 2016, they acquired profits. Currently, HeavyCo experiences an increasing demand of its products. The restructuring plan also continues in that every unit has to reduce cost and improve efficiency. This process will continue until 2018. The future is seen as positive by the majority of interviewees. The HRM manager summarises the situation: “I think that we profit from the acquisition by the Chinese SOE. We received a new plant. In China, they also build a new factory for our joint
venture. It is altogether positive.” The Chinese SOE is seen as a partner and not as the private equity owners who were seen as purely interested in profits. The works council leader states: “The collaboration is friendly and constructive between the two companies. The future between (the Chinese SOE) and HeavyCo is seen as positive.”

After the acquisition, HeavyCo's Chinese parent company envisaged in their business plan double-digit growth rates for HeavyCo - like in China and that by 2020 they could generate €1 billion (in profits). These unrealistic goals of the initial business plan decreased the credibility of the Chinese management. The business developer of HeavyCo also noted: "What is a bit of an issue is the business planning. They (the Chinese HQ) set very ambitious goals. We Germans are different if we make a business plan, we plan everything and that's 100 per cent. Then, maybe, we'll do something more - more is always possible. Therefore, we plan 103 per cent or 105 per cent. The Chinese are different. They want more; they demand more. And we say that's not realistic. They approach it differently."

After HeavyCo's crisis, a new business was jointly developed. As reported by the works council leader, the new business plan is based on more realistic financial projections, as some German interviewees at HeavyCo mentioned. This plan is the foundation for 1) a future collective agreement which excludes compulsory redundancies and 2) a company agreement on restructuring which aims to balance the interest of the restructuring and the layoff of 25 per cent of the workforce. The main goal of the works council is to secure the core business and competencies and with it the employment and income in Germany. To secure the German centre, there are contractual regulations for the premium products between the Chinese headquarters and HeavyCo.
Although the new business plan has been adopted, HeavyCo’s employees still work with unrealistic goals. For instance, one interviewed engineer complains: “The problem is that we have certain time specifications, we have to give specific deadline commitments, but this includes areas we cannot influence at all, like external suppliers. That is difficult to understand for an outsider. As German engineers we might say: ‘Okay, we make a commitment.’ But if I want to also plan a buffer time period of about six months, then they get annoyed because they want it faster. If I schedule it faster without a buffer, and then it actually takes longer due to factors that we cannot influence, then I also have a problem. That is a strange approach.” The engineer reported that he and his colleagues are frustrated with such time specifications and goals and have not internalised this new practice. These requests are seen as unnecessary and only increases the resistance among engineers against the Chinese influence on their work.

Compared to AutoCo, HeavyCo’s parent company has also sent a larger group of expatriates to its Germany subsidiary. Since January 2013, HeavyCo's parent company has sent more than 30 expatriates to the German subsidiary. At the moment expatriates are only sent one way from Chinese HQ to HeavyCo as HeavyCo's employees have not had the chance to be sent to the Chinese headquarters. The Chinese expatriates can be distinguished into two main groups. The first group consists of relatively young Chinese managers who work in middle management and are considered as high potentials by the Chinese HQ. Some interviewees suggested that the young Chinese expatriates are sent to HeavyCo to be exposed to an international context because they are in line for a promotion upon returning from HeavyCo back to the Chinese HQ. At the moment, the Chinese expatriates amount to 10 individuals who are grouped around the Chinese CEO of HeavyCo and they stay
for about two to three years - except for the Chinese CEO who has worked at HeavyCo since the acquisition in 2012. Some interviewees refer to this group of Chinese expatriates as the CEO's “minions” residing in the “golden cage”. The “golden cage” refers to a villa where the Chinese CEO and this particular group of Chinese expatriates live and work together. This team also works on Saturdays where they hold a weekly review with the Chinese CEO in the “golden cage”. This group does not have operative relevance at HeavyCo.

The Chinese manager at HeavyCo states that "the programme to send Chinese managerial expatriates to HeavyCo aims to contribute to an exchange and integration of both company’s culture. In addition, it is an opportunity for German employees to experience the support of the Chinese company directly."

At the HR department, but also in other departments, the interviewees express that they are there to support the Chinese expatriates to learn and professionalise rather than the other way around. An interesting illustration of how the Chinese expatriates are restricted to learn and to manage is mentioned by one HR employee: "There is a Chinese colleague in the HR department, but there is hardly any interaction with him. (...) I perceive the (Chinese) colleagues as alien. (...) For example, the HR colleague worked in his own office (...). It was then emphasised that it is important that he sits with his German colleagues in an office together. He is only working on his projects. He does not support our team. I do not know what he works on. But the Chinese headquarters insisted that he has to share an office with the German HR colleagues although there is no work interaction between the German colleagues and him. (...) I do not interact with him. I am impartial about him. His English is not very good.”

The Chinese HR expatriate seems to be placed symbolically and is expected to observe and learn about HeavyCo’s HR system. For instance, the German principal
HR manager has a meeting every other week with the Chinese HR expatriate and teaches him about the German employment context, including German pension schemes, employment relations system, and the legal aspects of the HR work in German companies. The HR manager portrays his meetings with the Chinese expatriate as follows: “As mentioned, we try to establish a good relationship from the beginning. At first, I met with the Chinese colleague once a week but that has changed. For one thing, it was very tedious. The Chinese colleagues have slowly understood that they could interfere or influence very few decisions so that this relationship has not developed any further. There are still regular meetings between the Chinese representative and the management to clarify strategic issues or to discuss the development of the joint venture in China. The colleague in the HR department asks about HR topics, including social or labour law, restructuring, works council, and tax issues. They want to understand how our management systems work and why we have certain HR and ER practices in Germany. This is sometimes very tedious, as there is no solidarity surcharges or church taxes\(^2\) in China. Sometimes the conversations are educative: sometimes I have the feeling of understanding where my Chinese colleagues have problems and why. I use this to deduce how my Chinese colleagues think and how they come up with solutions. Therefore, there are these regular meetings in addition to the management-level advisory report which takes place every week or every other week. And there are also regular meetings to discuss the joint venture in China. There are also other regular appointments in subject areas, or to clarify certain topics. This is sometimes intense and sometimes less intense.”

\(^2\) Taxpayers in Germany, who are members of the Roman Catholic, Protestant or other tax-collecting communities, pay between 8 and 9 percent of their income tax to their church or community (German constitutional law, Article 140) (Duden 2015).
Some other employees also noticed that these Chinese expatriates are very open, curious, and have a thirst for knowledge. Several interviewees express a willingness to help the Chinese to explain the German context and peculiarities and gladly answer questions. For example, the business developer of HeavyCo is impressed by the determination of his Chinese colleagues: “The expatriates are taught! The Chinese are more junior, and they pose various questions. This age difference leads to annoyance by some German colleagues. Others perceive them as thirsty to learn. For example, one Chinese colleague mentioned, ‘You are like a teacher to me.' He studied my presentation to understand my thinking, my structure. They do not know everything, but if they repeat something, they reduce their mistake.”

The young Chinese managers are thus dispersed across the company, including the finance, HR, and legal affairs department, to be exposed to foreign management practices, to observe HeavyCo’s management team, to learn from the departments’ practices and to continue their personal development.

The other group of Chinese expatriates consists of engineers who stay at HeavyCo's engineering departments for a shorter time period of time (a few months) compared to the first group of Chinese expatriates. The expatriate group of Chinese engineers is detached from the first expatriate group. They are assigned different accommodation among the locals in the city and are not isolated like the young Chinese expatriates who live in a mansion in the country. This group aims to obtain technical know-how from HeavyCo’s engineer departments - which the Chinese parent company lacks - by learning from the German colleagues, improving their skills, and professionalising their work. That the Chinese parent company lacks technical knowledge is noticed by HeavyCo’s engineers: “Some dispatched Chinese engineers are well educated and can easily become acquainted with our work style. They can be integrated in our team.
Others have much more difficulties. The last Chinese engineer, for example, already left after two weeks again because his English was not sufficient to teach him or work with him. One difference is that we have standards for building up our models. The Chinese do not understand these standards and that these can simplify the work processes of developing and building our models afterwards. The Chinese engineers have restricted access to HeavyCo’s knowledge pool (like all new colleagues), but they frequently attempt to bypass those restrictions and access all the information.”

These kinds of bypassing actions by the Chinese engineers and ignoring the rules are perceived negatively by the German engineers. The professionalism of the Chinese engineers varies and therefore HeavyCo’s engineers are more cautious of the Chinese owner and sceptical about the Chinese engineers sent to HeavyCo. The question is whether the Chinese engineers aim to access HeavyCo’s knowhow with the intention of bypassing the German engineers in order to transfer the German knowledge to Chinese HQ. Some engineers seem to be convinced of this while other employees are less suspicious.

In addition to the Chinese expatriates, both the Chinese SOE and HeavyCo have initiated several sport and cultural events (such as football tournaments, carnivals, dinners, etc.) to integrate the Chinese expatriates in HeavyCo and to expose HeavyCo and its employees more to the Chinese SOE. An example of this is the digital cycling competition organised by Chinese HQ for its international subsidiaries. During the cycling competitions, employees cycled to their workplace, and the miles cycled by the participating employees are summed up daily for the subsidiary’s team. Using the accumulated miles from the subsidiary’s cycling team, the teams travel from their respective subsidiary to the Chinese headquarters on a digital map each working day. From their digital stops they can send digital postcards to their colleagues and compete
with the different international subsidiaries. The competition seems to be well received by the workforce. There were no social activities after work organised for the employees before the Chinese arrived, according to the works council leader. The social initiatives introduced HeavyCo's employees to the Chinese culture as well as the Chinese company’s practices and policies which ensured a certain degree of exposure and an exchange of norms, values and objectives.

Compared to AutoCo’s Chinese SOE, this Chinese SOE interacts with HeavyCo extensively. Top and middle management have regular contact and meetings with their Chinese colleagues. Expatriates are sent to HeavyCo to be exposed to the German context and transfer the company’s norms and value to the German location. The Chinese owner does not only focus on market access but also on the access of knowledge.

5.1.3 Background of CarCo—a joint venture between a Chinese SOE and an American company

CarCo has emerged from the American conglomerate which decided to separate its car manufacturing division in 2012 but retained 30 per cent in the joint venture. The other 70 per cent of the shares were sold to a Chinese SOE in 2013. Both partners have a longstanding experience in producing automotive parts. The Chinese enterprise has existed since the 1970s, and the division of the US conglomerate goes back to the early 1950s. The CEO of the American conglomerate states the reasons for the separation are twofold. First, the industry of CarCo is cyclical and one reason for disinvesting in this branch of its company is owing to. “The cyclicality is not something that we particularly like, and it drives some of our decisions.” Second, the US management believes that CarCo’s market is no longer lucrative enough to invest.
One of the HR managers explained that to continue to be a leader in the field, this company requires a significant capital investment which the US parent company was not willing to make and therefore sold 70 per cent of its shares to the Chinese SOE. Before CarCo entered the joint venture, the American HQ initiated a significant restructuring programme in 2013/2014 to bring the healthy part of the division into the joint venture. Factories which did not function to their full capacity and which produced to be discontinued models were separated and phased out to make the company more profitable. CarCo entered the joint venture in 2015 with the Chinese partner which they had known previously and worked with for more than 15 years. The joint venture manufactures various parts for the automotive industry and is the global leader in its field. CarCo produces automobile products similar to the Chinese parent company. Their products are customised for each client and thus the company has local offices with each of their major customers. The company gains synergies in the R&D activities spread across the regional centres, but products are customised to each customer. At the time of the field work, the joint venture employed 33,000 people and operated in more than 20 countries across Asia, North America, and Europe.

The new owner, the Chinese SOE owned by a Chinese provincial government from the coastal area, is a large company with more than 150,000 employees in China. Founded in 1955, the company is a product of numerous mergers and corporate restructuring. The company manufactures various automotive parts and has been involved in joint ventures with different German and American companies in China since the 1990s. Since the 2000s, the company has also invested abroad namely in Korea, the UK, US, and a few African countries. The brand of the Chinese SOE is well known and highly regarded in the Asia Pacific region.
The current situation of CarCo is positive. CarCo is successful and its product in high demand. The Chinese SOE was willing to invest in CarCo to further develop its business, financing new factories and an R&D centre in Central Europe. The HR manager summarised: “The Chinese HQ is willing to invest in its employees, in the region, and the market (...). You can see, CarCo has grown everywhere. We recruit new employees in all divisions.” Since its establishment, CarCo has become the global leader in its sector.

**Motivation to invest in CarCo**

The Chinese SOE decided to invest in CarCo for several reasons: market access, research and development, international experience and a well-known manager. First, the joint venture offers the opportunity to expand to the European and American market. Before the joint venture, the Chinese firm had a greenfield office with two to three employees in Germany trying to sell their products and also two factories in North America. The Chinese SOE had aimed to enter the European market because they had no active business in Europe. The joint venture allows the Chinese SOE to not only gain access to the European market but also to CarCo’s premium brands in the European and American automotive sector. Second, the new parent company received access to the resources of CarCo which includes technologies, expertise in the sector, and an active R&D division. For instance, CarCo has a research and development unit already established in Germany, and the parent company happened to be building a new R&D unit in Central Europe in 2017. All CarCo’s R&D units work on new projects together - across the regions. A third reason is that the Chinese partner is interested in CarCo’s global ‘best practices’. One unusual asset of CarCo is the well-known German manager who is an attractive asset to the Chinese SOE, too,
and therefore the German manager was reappointed as CEO of the American Chinese joint venture, CarCo.

**Management of CarCo**

CarCo’s parent company has taken a different management approach compared to AutoCo and HeavyCo. The Chinese headquarters aims to become a global company and therefore the members of its supervisory board are from three regional headquarters. Although the Chinese SOE has an ownership of 70 per cent, 50 per cent of the global leadership team is not located at the headquarters in China but at the US and European regional HQ. The working language across the parent company and also CarCo is English. The US and German regional headquarters develop new global standards together with the Chinese regional headquarters and launch new practices. The Chinese headquarters has the control over financial decisions. The Chinese parent company has spread the managerial divisions across three regional headquarters. The leading management teams are organised into global teams which are located at the Chinese headquarters and the American and German regional headquarters. For instance, there are two global HR leaders of which one is a German and the other a Chinese. The German HR leader has stayed at the Chinese headquarters for the last two years and afterwards will return to the German regional headquarters in 2018. The German subsidiary is the regional office for Europe and Africa, and it is responsible for 7000 employees. At the headquarters there are about 1000 employees working in the R&D and the administration. Typically, the regions can run their business independently but have to comply with the company's global standards.

Compared to AutoCo and HeavyCo who both did not integrate their foreign subsidiary in their operating divisions, CarCo’s is a regional headquarters and its Chinese parent
company is more globally oriented. CarCo also has a local management team though it consists of not only Germans but also other European and American nationals. They continued to work at CarCo after the acquisition and they hold knowledge of the local institutional environment and a wide local network. The local management team of CarCo makes all operational decisions for the European and African regions. CarCo’s management reports to the supervisory board every month. Each business function is led by a global director and vice-director. For instance, the HRM department has a global director, a German, and a vice director, a Chinese. Then each regional headquarters has a regional director, in the case of HRM department, an American HR manager, and for each HR function, another manager leads the teams in the functions.

The supervisory board is based on an international team from three regional headquarters and consists of 50 per cent Chinese and 50 per cent Western nationals. The members of the supervisory board are appointed by the regional headquarters. The chairman of the supervisory board is a German national. By dispersing the power across three regional headquarters, the Chinese owner increases its legitimacy and reduces the risk of potential resistance towards changes by the US and German regional headquarters. Along with taking on the majority of the managers from the former company, the Chinese parent company also accepted the existing practices and policies of the American partner. The global management team determines the strategy and supervises the implementation. The Chinese headquarters applies a personal and direct form of control. Not only the supervisory board but other managerial and non-managerial teams are also organised globally, including the human resources, public relations, research and development, and finance department. For instance, CarCo collaborates in the research and development activities of the
company’s products. The engineering teams are spread across the three regional headquarters and other plants and they work closely on R&D projects together. A second example is that the PR team has employees in all three regional centres and the head of the department is in China. The vice-manager of the PR department is in the US regional headquarter. The three PR teams from China, the US, and Germany are in daily contact and collaborate on global projects, such as a corporate webpage.

The global vice HR leader explained: “Our business is in the US, Europe, and Asia. China has the control over certain investment decisions, and the US and other subsidiaries develop the global standards. Typically, the regions can run their business but have to make sure to apply the global standards. The HQ does not launch the global practices. (...) In other words, it is a global exercise to develop our ‘best practices’. It is a global exercise to implement the ‘best practices’. The Chinese owner is extremely clever. First of all, to have not only Chinese people for the global leadership but actually have a split of 50/50. Even though the Chinese site has an ownership of 70 per cent. The regions enjoy autonomy, and to follow only certain cooperate rules and some ‘best practices’, and some key decisions. The top leaders are selected together, in the region is a lot happening.”

The supervisory board decided to standardise its management strategy across its international units with the input of three regional headquarters – China, Germany, and the US. The top management board decides on the global strategy and the general direction. To implement the new strategy, globally organised teams have been selected from three regional headquarters - China, the US, and Germany - to develop new technological platforms, managerial practices, and policies for the company. For instance, the company wanted a standardised HRM practices and policies. The supervisory board decided that HR practices should be more standardised. Part of this
standardisation process was that the German compensation team was asked to develop a new online compensation and payroll software. This would be implemented in all three regional centres to make the calculations for the compensations consistent and comparable across the international units. The German team led the development of the compensation software with the input of the other regional centres and CarCo will be the first subsidiary to carry out the implementation of the software (the other subsidiaries will follow).

The HR manager summarises the international management approach of HQ: "It is a global exercise to develop and implement the ‘best practices’. While the regional HQ enjoy autonomy, there are only certain cooperate rules and some ‘best practices’ to follow, and the Chinese headquarters makes some key decisions. The top leaders are selected together by the regional headquarters which form the global leadership team."

A global expatriate programme was also implemented. In comparison to the other two brownfield subsidiaries, AutoCo and HeavyCo, CarCo has sent ten European expatriates to China, among those the global HR vice-president. The PR manager of CarCo comment: "We have a global mobility specialist. She is with the human resources department. And mobility really means mobility. We currently have four expatriates from China at CarCo. Ten European expatriates of which nine are from Germany, are currently in China. As a rule, our expatriates stay in China for two to three years. We could have done a communication exchange as well. One of us from communication as an expatriate could have gone to Shanghai. But no one really agreed.” The expatriates from CarCo and the US regional headquarters are sent to the Chinese headquarters to be exposed to the corporate culture, to develop as top
management team personal connection and to understand the Chinese headquarters and management approach.

5.1.4 Background of MedCo and its Chinese private-owned parent company

MedCo is the German subsidiary of a Chinese private-owned company. The family-run Chinese company was founded in the coastal urban area in 1997 and at the moment it employs more than 300 people in China and seven people at MedCo in Germany. MedCo's medical products are used to examine the internal organs. The common working diameters of these instruments are between 0.3 mm to 19 mm. This allows minimal tolerances, so there are only a few producers worldwide operating in this sector. German manufacturers produce high quality products and enjoy a great reputation according to the Chinese general manager.

The parent company first became active in Germany by working with a German distributor who is licensed to sell the Chinese headquarters' products in Germany. The connection to the distributor developed while the Chinese general manager of MedCo, the son of the general manager of the Chinese POE, studied in Germany. In 2014, the son of the general manager of the Chinese POE founded MedCo and is part of the general management of MedCo. Officially, there is a trading contract between MedCo and its Chinese HQ which defines the Chinese owner as the investor of MedCo. The Chinese owner provides the funds to start the German subsidiary, to purchase the commercial premises, and to build the factory. Although MedCo is closely connected through the family link on paper, MedCo is fairly independent from its Chinese investor.
MedCo focuses on building a German supplier network and an international customers network. Its business thus includes purchasing, sales, and marketing activities as well as research and development. MedCo currently employs seven employees and supplies customers in Europe, South East Asian, and South America. In 2014, the Chinese parent company financed building MedCo’s offices. In 2015 and 2016, MedCo’s products were registered with the German state authorities and they waited for a year to receive be certified by the German authorities to sell their medical products. During this process, MedCo had to be a wholly functioning company, they needed to establish a quality management system (required by the German law) in order to be eligible for an audit by the German authorities before they would be allowed to sell their products. In 2016 they passed the audit and started to build up their customer network. 2017 is the first year when they incurred a profit. The German subsidiary plans to increase its infrastructure and start a designated R&D unit at the German subsidiary by the end of 2018.

While the German market is still supplied by the German distributor, MedCo is responsible for the distribution of its parent company’s products to all other European countries. The role of the German branch is twofold. On the one hand, the subsidiary is the central distributor of MedCo's products where they can hold products and materials and thus quickly respond to customers' requests. As they are closer to the European market, the German subsidiary of MedCo can integrate the requirements of the local markets more easily. On the other hand, the German subsidiary is the buyer of raw materials and machinery in Germany and supplies the headquarters with materials and machinery.
Motivation to invest in Germany

The motivation for investing in the German market are threefold: 1) market access, 2) technology transfer, and 3) avoiding Chinese stereotypes. The first advantage is direct market access to European buyers and manufactures. The personal contact to customers and suppliers is seen as an advantage by the Chinese parent company. This enables MedCo, for instance, to inspect the quality of the materials on-site. The on-the-spot quality assurance, before the transportation of the products to China, saves the Chinese headquarters transportation costs and a lot of time. It also ensures smoother and quicker production processes. The personal contact and local quality inspection in Germany are important to the Chinese headquarters but it is not possible to realise this from China. Hence, the decision to set up a subsidiary in Germany.

Second, the Chinese parent company aimed for a technology transfer from Germany to China. MedCo’s parent company wants to develop further, and therefore it invests in the markets where the technological know-how and the experts are. MedCo buys machineries and materials from German manufacturers and the German subsidiary is then responsible for planning and arranging the production line, preparing the machinery for the Chinese headquarters which includes changes to the local electrical standards and English and Chinese instructions for the machinery. After assembling them, altering them to the Chinese context, MedCo’s technicians train the Chinese engineers to use the new machinery. The materials are also bought by MedCo in Germany. The Chinese headquarters uses the German production lines to produce MedCo’s products for their customers outside of China. The materials and the machinery are all from Germany, but the products are produced in China. The products are certified in China, but by a German inspection body. The products are again approved in Germany by a German inspection body. The Germany deputy
manager thinks: “You can compare our company to Appel. Designed in Germany and produced in China.” Only the other way around that the German subsidiary acts like Appel’s headquarters in the US. The German site is thus the location to source technology, materials, and to train engineers of the Chinese HQ. The long-term goal is to have R&D projects across China, Germany, Japan, and Korea to develop new products with materials bought from German, produced in China and certified from China, Korea, Japan, and Germany. The aim is to have products which are compatible with many markets and become internationally recognised.

A third reason to invest in Germany is to avoid the rather negative stigma of China producing only low-quality products. The general manager shared his observation: “Our customers are not only from Europe but also from outside Europe. They value recognised certification. The German authorities issue a very well-recognised certification. Similar certifications are issued in different countries, but the German certification seems to assure quality worldwide. This just seems the way it is in our field."

The German manager mentioned that although most competitors in his field manufacture their products in China, the brands (of the finished medical products) tend to be from Germany or other European countries. According to the Chinese manager, many dealers and customers seem to ignore this. The majority of the competitors of the Chinese are also from China. Investing in Germany is a way to avoid regional, political, and economic mistrust from customers and suppliers and unwanted attention for being a Chinese producer.
Management of MedCo

MedCo’s parent company is the smallest company in this research and its management practices and policies are informal. MedCo’s Chinese owner is the only Chinese manager who already had experience in Germany. The son of MedCo’s owner had studied and worked in Germany previously and during his stay he had established a business link to MedCo’s German distributor. After setting up MedCo, the Chinese general manager slowly transferred his management responsibilities to his German deputy manager. Along with the transfer of responsibilities, the Chinese manager visits the German subsidiary less often and for shorter time periods. The cutback of the Chinese manager's presence also decreases his influence.

Although officially the Chinese general manager is head of MedCo, the German deputy general manager has taken over a significant share of the management responsibilities. He was recruited as quality manager for a certification process at the early stage of the business. After another manager left the company, he was then promoted to deputy manager. The control between the Chinese general manager and the German deputy manager is informal and pragmatic. The Chinese manager is consulted when necessary. The deputy manager illustrated it as “on demand”. Sometimes they would call several times a day to coordinate tasks and sometimes they did not speak to each other for a week. There are no formal policies or practices. There is an informal understanding that the German deputy manager has to coordinate bigger decisions with the Chinese general manager. Usually, they both agree with each other on the respective issues and hold similar opinions about the business. Since, the transfer of responsibility, the German deputy manager of MedCo has also increased his power through building up his network of local suppliers and international
customers, while additionally acquiring expertise on the domestic employment relations.

The German manager of MedCo works collaboratively with the Chinese parent company and they organise the reporting informally. The Chinese general manager of the German branch visits the German subsidiary three to six times in a year, and the German deputy manager visits the Chinese headquarters twice a year. The interviewed employees of MedCo said that they have met the Chinese general manager during his visits and that they are in contact with the Chinese headquarters if they need information or reports for the documentation process of their products. The finance manager commented: "I did not meet the boss at the time (of the recruiting process). (...) We got to know each other personally in April. We have almost daily contact via email and Skype.” There is thus no effort to integrate MedCo with the parent company’s practices and policies.

He is currently involved in founding the Korean subsidiary and managing the internationalisation process for the Chinese POE. The Chinese HQ founded the Korean subsidiary but MedCo will supply the Korean subsidiaries with its German branded products. The reason for MedCo having a more central role in the company was mentioned above - the Chinese management feels their Chinese products are mistrusted in Korea. The Korean branch orders the German subsidiary via the German subsidiaries which are then produced and delivered by the Chinese HQ. To recap, MedCo supplies the Chinese POE with German raw materials and machineries and the Chinese parent company supplies MedCo and the Korean subsidiary with its medical products.

Similar to HeavyCo, the parent company of MedCo also miscalculated the growth rate of the European market. MedCo’s Chinese manager stated: “The business plan and
the expectations for MedCo at that time were not realistic. Instead it is very optimistic. They did not make their assumptions on a very slow-growing market, where the segment only grows annually between 2.5 per cent and 3.5 per cent. (...) In order to clarify their initial assumptions, the beginning was marked by disputes where demands and expectations were incompatible with the reality. (...) We actually had to scale back our expectations so much that we said that after the certification in 2015/2016, we (...) expected to have a 5-year start-up period instead of a 2-year one.” Because of the unrealistic business planning, the credibility of Chinese owner sank.

In addition, the business model had to be altered because the market was incorrectly assessed. MedCo’s deputy manager explains: “An example is in the context of customer acquisition was relatively quickly turned out at the beginning that our brands and products could be associated with products of the parent company which are already on the market. The Chinese owner did not expect this. The products look the same, even from the other manufacturers. [For example,] if you then sit with a major customer in Italy in a Skype conference and he holds the catalogue of the Chinese parent company under your nose and says your products are coming from them, can you not deliver that to us, too? Then there is relatively simple proof to show why this start-up takes a little longer and needs a different strategy than just getting a German brand up and running. We need to change the business model about how to position us in the market.” The Germany deputy manager altered the business plan and model and MedCo is currently thriving. The success has increased the power resources of MedCo.
5.1.5 Background of InnoCo and its parent company

InnoCo is also a greenfield investment founded by a Chinese private-owned company in Germany. The founder of InnoCo’s parent company is a former Chinese government employee who started his career in a local government. The Chinese privately owned company works in the real estate sector and it was founded in 1998. Nowadays, it is a leading company in its industry with 14,000 employees in China.

The company has an unusually high concentration of Communist Party members in its workforce - more than 70 per cent - and among its workforce there are also government officials from the central and regional Chinese governments. In China, the company is known for its focus on building business relationships with the government and having established effective relationships with various central and local government officials. In one magazine an employee of this Chinese POE concludes that the enterprise has only one client, namely the government. Although the company is officially a private-owned company, the governmental influence seems to be substantial in this company.

The company started by focusing on real estate sector but this sector was predicted to be saturated soon. The Chinese general manager of InnoCo states that this forecast is one reason why InnoCo's parent company explored its options to expand its business to new sectors and to internationalise. He added that the company had too much money which they did not know how to spend and HQ wanted to invest in a new business which could also grow outside the Chinese market. With the help of a consultancy, they started an innovation project in the US in 2014. This venture was seen as so successful that in the same year the Chinese parent company turned it into a business and founded several subsidiaries in China and overseas. At the time of the
fieldwork, the company had more than ten subsidiaries in China, the US, Korea, Israel, Finland, and Germany. The parent company's mission is to build a global ecosystem and to be at the forefront of the technological developments. InnoCo’s parent companies' expertise and reputation in China, and its strong relationships with central and local government have helped this new business to expand quickly.

InnoCo was started in 2015. The German subsidiary of InnoCo has a Chinese general manager and seven local employees of which two are Chinese and five are German. InnoCo's team focuses on R&D and marketing. InnoCo provides various services through its global network to its customers. The business idea is to focus on providing globally interesting projects with more personalised services, helping customers to land and grow fast in the Chinese market. They offer co-working spaces, political and business contacts, and their expertise of China to their German customers. Through their political network, InnoCo can support businesses and protect their customers’ interests in China. In addition, InnoCo helps its German and European customers with hands-on supply chain support, distribution, manufacturing, and retail connections in China as well as Europe and the US. It can also assist its customers in finding and hiring the right talent and raise funds in China and other countries in which they operate.

In 2017, InnoCo expanded its business and opened a second branch in Germany. Although office space is rented, there was no independent team hired for the second German subsidiary at the end of the fieldwork. Instead, the team of InnoCo manages the new branch.
Motivation to invest in Germany

The motivation of InnoCo’s parent company to invest in Germany is largely unclear to the interviewed employees at InnoCo. In general, the interviewed employees do not see a clear strategy or motivation for their Chinese headquarters to invest in Europe. Three reasons were identified for InnoCo’s parent company to invest in Germany: 1) building an international network, 2) access to knowledge and technology, and 3) the Chinese government’s initiative to expand the national innovation capacity.

First, the company aims for a global presence. Their mission is to establish ten Chinese and ten international subsidiaries by the end of 2017. At the international level, the company failed to reach this goal. Their goal is to gain a competitive advantage by expanding to other markets and being able to access overseas resources, such as technology and experts. The German manager of InnoCo speculated that the parent company simply seeks international exposure to gain a domestic edge in the Chinese market. The presence of InnoCo in Germany in itself seems to be more important than building resources with InnoCo on-site. InnoCo mainly focuses on networking and becoming known in its field in Germany and focuses less on attracting customers and becoming profitable. InnoCo’s presence in Germany alone appears to be associated with enough benefits for the Chinese parent company.

Second, the parent company aims to access expertise and technology because they focus on particular topics in each country, they invest in. In Germany, the focus is on biomedicine, artificial intelligence, and electrical automobile technology. Although InnoCo has customers in these areas, its goal to support its customers’ business and ideas to expand to China has not yet been realised.
A third reason is to conform to the political guidelines of the Chinese central government, according to the senior business developer of InnoCo. Two interviewees referred to the ‘Made 2025 in China’ strategy which aims for innovation and upgrading the Chinese industry. InnoCo has also displayed ‘Made 2025 in China’ booklets at its reception. The background of the initiative is that the Chinese government financially supports Chinese companies to invest abroad. The Chinese headquarters seems to have used the opportunity window created by the Chinese government in order to diversify their business and go abroad.

**Management of InnoCo**

Like MedCo, InnoCo has employed a Chinese national as general manager. The previous Chinese general manager (general manager P) was sent from headquarters but the current manager (general manager C) was situated in Germany and had worked there prior to his employment. The Chinese parent company of InnoCo usually sends a Chinese manager to its foreign subsidiaries as evident in all other international subsidiaries. After InnoCo’s employees highlighted the inability of the former Chinese expatriate manager the HQ stalled the decision but eventually then replaced the first Chinese general manager (general manager P). The current Chinese manager (general manager C) had previously worked and studied in Europe and knows the German context well. He also worked for the Chinese parent company as a consultant. But he was not sent from headquarters which is an unusual practice for the Chinese parent company. The current general manager’s experience increases its credibility among InnoCo’s employees and the Chinese HQ. He focuses on expanding InnoCo’s network with regional and international customers to become less dependent on the Chinese parent company.
Since the former Chinese general manager left, there are no Chinese expatriates present at InnoCo. There are three Chinese nationals working at InnoCo but all of them have worked and studied in Europe before starting at InnoCo and have not worked directly for InnoCo’s parent company previously. The current Chinese general manager is the main point of contact for the Chinese headquarters. There are regular online meetings between InnoCo's team and the Chinese headquarters which usually take place in Mandarin. The Chinese general manager has regular business trips to the Chinese headquarters and there is an annual meeting for the employees working in the overseas subsidiaries.

All administrative functions are managed from the headquarters in China. The Chinese general manager has established a flat hierarchy and several interviewees describe themselves as a start-up in which practices and policies still have to develop. Meanwhile the interviewees complain about the micromanagement by the Chinese parent company which causes an overload of bureaucratic work and hinders the ability for InnoCo’s employees to be more flexible in their work. The German subsidiary is currently financially dependent on the parent company.

In contrast to the other subsidiaries of this study, InnoCo is the only subsidiary case which has little autonomy and is tightly controlled by its Chinese headquarters. The Chinese headquarters makes decision on as many issues as possible, including finance and HR issues. Due to the close monitoring, InnoCo mainly recruits candidates who are fluent in Mandarin. One German employee who was without Mandarin language skills but had work experience in the German sector was recruited by InnoCo but he left within six months. The parent company also transfers its practices and culture to InnoCo as much as possible. The Chinese parent company, for instance, specifies that InnoCo’s team holds daily team meetings in the morning during which a team picture
has to be taken and sent to Chinese HQ. The pictures serve as a control mechanism to ensure the daily meetings take place and employees come to work (on time). The interviewed employees are unhappy with the degree of control from the headquarters.

With regard to the company’s culture, the Chinese HQ tries to cultivate joint cultural and sports events across all its subsidiaries. For instance, employees are invited to join a sports day during which they can take pictures and enter a best picture of the day contest. One employee of InnoCo expressed the irritation of these obligated events: "That (the competition) is stupid (...) I think that no one takes part anyway. So, for an event, like a sports competition, we all just have to send a photo, and in the end, we have to select and click which is the best. That's all so meaningless. They are trying to create a corporate identity. The idea is not bad. We are a Chinese company, and we try to act globally and try to make things the same. We all celebrate something on the same day. But we are doing an international photo contest where no one is involved, and no one knows why. That is to create wannabe identity.”

InnoCo's employees are dissatisfied with these practices and they feel they are ‘too’ Chinese for InnoCo. The employees, however, do not resist them either. This discontent of InnoCo’s employees is however reflected in the high employee turnover rate. During the fieldwork four employees left. Owing to the Chinese POE’s tight controls of InnoCo, its employees in Germany are dissatisfied with the management policies and practices of the Chinese parent company.

InnoCo’s work is strained with unrealistic and unfitting key performance indicators. In fact, InnoCo’s employees mentioned that their headquarters’ key performance indicators (KPIs) would impair their work if they were to comply with them. For instance, InnoCo’s employees are instructed to promote the logo of the Chinese parent company or build personal connections with various political actors. Such actions
would draw unwanted (negative) attention to InnoCo’s work and therefore they do not follow these practices. InnoCo’s senior business summed up: “Sometimes I have the feeling that it is always about speed. Always get a job done as fast as possible. Insanely ambitious. The error rate does not really matter. Mistakes can be made. Sometimes, I feel like it's just a tunnel vision to meet all targets, even if it is nonsense. It seems that the initial idea was to establish as many new subsidiaries as possible. No matter what comes and whether the problems might arise through the quick growth. And at the same time, there is a huge investor in the background that the company has such a capital cushion, and thus we are not required to be profitable.”

The lack of strategy and inexperience in dealing with its foreign subsidiaries has weakened the position of the Chinese headquarters among InnoCo's workforce.

Although InnoCo’s connections in China are a competitive advantage to their local competitors, InnoCo interacts little with the parent company with regard to its service products. The interviewees even report that they experience the professional relationship with their Chinese HQ as unprofessional. Representatives of the Chinese HQ visit the German subsidiary and wish to meet innovation managers from leading German companies. While this is not unusual their travel plans changed until two days before the actual business meetings with those managers and the German employees felt embarrassed as they consider such changes as unprofessional in particular with such well-known people from their field. As InnoCo is not profitable the Chinese general manager has started to expand its business to new Chinese customers in order to become less dependent on the headquarters.

Two observations were made concerning the management of InnoCo. First, the Chinese headquarters is perceived as chaotic by the interviewed employees. Requests and information of the Chinese headquarters are often communicated last minute.
There are several examples. One example of the day to day management tasks is that the bills are not paid on time by Chinese headquarters, or the Chinese CEO of InnoCo has to stand in to pay bills, and several interviewees mentioned that their employment contracts arrived too late. This is because all HR and finance issues have to be approved by Chinese HQ, and these bureaucratic processes take long and appear to be often too late.

Another example is that during a China tour, where customers were invited to China to familiarise with the Chinese market and suppliers, the conditions of the tour were still unclear after the trip. For instance, InnoCo’s parent company initially stated to the business developer manager that the trip is completely paid by InnoCo. During the trip, the business developer got to know that the participants had to pay extra for several things such as the accommodation of the single rooms.

A third example is the visit of the CEO of InnoCo’s parent company. The Chinese parent company wished to meet some top managers from Germany. InnoCo hired a company to arrange such meetings. But two weeks prior to the visit the agenda could not be confirmed with the partner companies in Germany because Chinese HQ kept changing its opinions. The German business developer responsible for the CEO’s tour experienced this as extremely embarrassing towards his German partners and was worried that this resulted in an unprofessional image of InnoCo. Additionally, if the Chinese HQ requires something, it has to happen instantly, so employees feel they cannot plan their work. If they however require something from Chinese HQ they cannot expect the same of their Chinese colleagues. The interviewed employees summarise their impression of the Chinese HQ as disorganised and ad hoc.

A second observation is that InnoCo has on the one hand a large company in the background, financing and controlling their work and on the other hand they are a
young business. The interviewees are convinced that InnoCo should have more freedom and broaden the companies' activities in order to become independent and profitable. InnoCo seems to be an experiment for Chinese HQ to see what can be developed abroad and what possibilities there are. Although the Chinese POE requests much information, they have not established a learning platform or a strategy to transfer knowledge from its international subsidiaries to China.

5.1.6 Background of EnCo and its Chinese parent company

EnCo is the only German greenfield of a Chinese state-owned company of this research project. The parent company was founded in 2002 and it operates in the utility sector. Being one of the leading companies in its field in China, the SOE employs more than 1.5 million individuals in China and overseas and it generated revenues of US$ 200 billion in 2016. In 2007, EnCo's parent company started to invest overseas; first in South East Asian countries, and then expanded its investments to South America, Australia, and Europe (including Greece, Italy, Poland, Belgium, and the UK). The vision of EnCo's parent company is to build a globally interconnected network.

EnCo was founded in 2014 and the subsidiary functions as a global research institute for its Chinese parent company. It focuses on renewable energies, power supply systems, and energy storage. Other research institutes of the parent company are based in China, the US, and the UK. To become a recognised institution in the German market, EnCo has become a member of an industrial forum in Germany and it connects with other Chinese companies operating in Germany. Currently, the German subsidiary mainly supports the work of its Chinese headquarters and develops a research agenda for Europe. EnCo plans to open another branch in Germany.
Although they have not carried out this plan yet, EnCo’s vacancies already mentioned two locations in Germany. The German subsidiary remains completely dependent financially on the parent company.

**Motivation to invest in Germany**

The Chinese SOE is motivated to invest in Germany mainly to access knowledge and technology. Operating in Germany, the Chinese parent company can access talents, expertise, and technology which cannot be accessed from China. To gain access to the European network, expertise, and technology, the company focuses on recruiting European employees with an attractive salary. Recruiting European engineers has several benefits aligning with HQ’s strategy. First, the Chinese expatriates at EnCo can learn about the current knowledge and technological developments in Europe from their European colleagues and transfer the acquired knowledge and technology back home. Second, the European employees bring their own network and experience to the company which EnCo can leverage to expand its network and gain support for accessing various funding opportunities in Europe. The long-term plan of the Chinese SOE is to win funding from German and European institutions in order to finance research projects on power supply systems and to become a more independent R&D unit from its Chinese HQ. This strategy can enable EnCo to develop a different research focus compared to its Chinese headquarters. Meanwhile it can also advance the R&D activities of its Chinese parent company.

**Management of EnCo**

EnCo functions as an R&D unit with several teams focusing on different research areas. While EnCo mainly focuses on research and development activities, the German subsidiary has, besides its Chinese general manager, also an accounting and
human resource management team in Germany. EnCo is led by three Chinese managers and it is the only subsidiary managed by a Chinese management team which has no prior local knowledge or experience in Germany. While the company is hierarchically organised, in particular the management team, the research teams tend to be less hierarchical. The interviewees characterise EnCo overall as a company with a start-up feeling.

In the beginning, the subsidiary consisted of mainly Chinese expatriates from the parent company. There are different groups of Chinese expatriates; some are sent from the parent company with an expatriate contract for three to five years to Germany to build up the subsidiary and others, i.e. academics and engineers, are sent out with a scholarship to Germany. In 2017, 50 employees are working at EnCo. The HR manager states that 40 per cent are Chinese expatriates, 40 per cent locally recruited Chinese engineers, and 20 per cent locally hired Europeans. EnCo plans to increase the share of locally employed people. The aim is to have 50 per cent Europeans and 50 per cent Chinese. EnCo’s staff strategy deviates from other international subsidiaries, such as the US subsidiary, where Chinese expatriates are working exclusively.

The Chinese management team follows the practices and policies of Chinese HQ in general. EnCo also uses the digital platforms of the parent company which serves as an additional control mechanism for HQ. The exception is the HR work for which the German HR manager has built new technological platforms, practices and policies as she considers the platforms of the Chinese HQ unsuitable for the German context (more details in the next chapter). Except at the HR level, the company has not experienced any resistance to the influence of the parent company which remains strong. The strong influence of the Chinese parent company is also reflected in that
the working language is Mandarin at EnCo. While the management usually communicates in Mandarin, the working language of the research team is usually English. The German HR manager is the only non-Chinese in the management team; the exception in the middle management and she only communicates with her colleagues in English.

EnCo’s headquarters assigns R&D projects to EnCo. The research teams have attempted to tap into the German funding with no success at the moment. The original purpose of EnCo is not to only work for the parent company but to also acquire research projects and funding from European institutions.

The expatriates are in constant contact with the Chinese headquarters. In addition, the Chinese headquarters organises an annual meeting where the managers of all its foreign subsidiaries gather. The meeting is in Mandarin and therefore indicates that the international strategy is to send Chinese expatriates to their foreign subsidiaries. The German HR manager attended the last annual meeting and required a translator to follow the meetings. This annual conference also offered an opportunity for EnCo’s HR manager to exchange German HR practices and policies with the HR department of the Chinese headquarters. EnCo has not sent any European employees to the Chinese headquarters. The HR manager has the opportunity to stay at the Chinese parent company for a more extended period but she declined. The Chinese parent company currently considers sending a Chinese HR manager to EnCo to learn from EnCo’s HR practices and policies.
5.2 Comparison of case companies

This section compares the above describes case studies. This section examines the (1) governmental influence, (2) ownership type, (3) province of origin differences, (4) the motivation to invest in Germany, and (5) the role of the German subsidiaries. While the influence of the Chinese government seems to affect the case companies in similar ways, the ownership types, and province of origin seems to generate differences. The table 5.1 below presents an overview of the cases subsidiaries focusing on the ownership types, facts of the investment in Germany and the subsidiaries activities. The differences and similarities of the German subsidiaries are evaluated at the end of this section.

<table>
<thead>
<tr>
<th>Ownership type</th>
<th>Year of entry</th>
<th>Entering mode</th>
<th>Prior int. experience</th>
<th>Sector</th>
<th># employees</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>AutoCo</strong></td>
<td>2012</td>
<td>M&amp;A</td>
<td>No</td>
<td>Automobile</td>
<td>600</td>
</tr>
<tr>
<td><strong>HeavyCo</strong></td>
<td>2012</td>
<td>M&amp;A</td>
<td>Yes</td>
<td>Manufacturing</td>
<td>1,100</td>
</tr>
<tr>
<td><strong>CarCo</strong></td>
<td>2015</td>
<td>M&amp;A</td>
<td>Yes</td>
<td>Automobile</td>
<td>33,000</td>
</tr>
<tr>
<td><strong>EnCo</strong></td>
<td>2014</td>
<td>Greenfield</td>
<td>Yes</td>
<td>Green technology</td>
<td>50</td>
</tr>
<tr>
<td><strong>InnoCo</strong></td>
<td>2015</td>
<td>Greenfield</td>
<td>Yes</td>
<td>Service sector</td>
<td>8</td>
</tr>
<tr>
<td><strong>MedCo</strong></td>
<td>2014</td>
<td>Greenfield</td>
<td>No</td>
<td>Medical Equipment</td>
<td>7</td>
</tr>
</tbody>
</table>

Table 5.1: Overview on the key features of the case subsidiaries

5.2.1 Chinese governmental influence

China’s Go Out policy initiated in 1999 and the ‘Made in China 2025’ initiative first discussed in 2011 and launched in 2013 have supported the internationalisation process of Chinese companies in general and in particular Chinese SOEs. The Chinese parent companies in this research project entered the German market during 2012 and
2015. These investments appear with the Chinese policy initiative ‘Made in China 2025’. Entry years show that these Chinese investments in Germany are relatively recent which appears to be an overall trend of Chinese investment in Europe. The behaviour of Chinese companies has changed from targeting troubled German enterprises to strategic assets with leading technology and international presence (Hanneman and Huatauri 2016). All acquired case subsidiaries were healthy before they were acquired by Chinese companies and are thus regarded as strategic assets for the Chinese parent company.

China is focusing on advancing its economy and the Made in China 2025 strategy as well as the government’s recent 5-year plan indicate that Chinese companies will focus on investing in R&D. The ‘Made in China 2025’ political strategy focuses on a handful of sectors related to high tech industries and smart manufacturing whereby Chinese companies are encouraged to increase their innovation, expand their R&D activities, and access asset seeking behaviour abroad. This initiative supports and incentivises technology-seeking FDI and knowledge acquisitions by Chinese companies abroad (Wübke et al. 2016). All case companies have invested in the targeted areas, supported by the ‘Made in China 2025’ initiative, see table 5.1. The Chinese parent companies of the case subsidiaries all seek to accelerate their technological catch-up through their strategic investments in Germany. Such investment in Germany are typical according to a report by KMPG (2017) which states that 30 per cent of the foreign investors have a research and development unit in Germany and 69 per cent aims to invest in R&D units in Germany. For the parent company of EnCo, that it is its main business activity in Germany. AutoCo, HeavyCo, and CarCo have R&D units, and MedCo and InnoCo also focus on this topic but due to their size do not have a designated business unit yet. The stereotype of Germany
being a leader in technological advancements and product quality is a pull factor for all case companies (KPMG 2017). While the studied cases thus all exhibit these activities, they perform those to different degrees. The R&D activities of all companies and the targeted industry of the Chinese case reflect the ‘Made in China 2025’ focus on technology and knowledge seeking FDI behaviour.

All cases also exhibit asset-seeking behaviour with their German subsidiaries. The brownfields are all typical Chinese cross-border acquisitions in Europe accessing assets, augmenting key capabilities, and seeking opportunities. In particular, the Chinese SOEs were interested in the know-how and technology expertise of the companies. The greenfields were strategically set in Germany to access knowledge and technology. All six companies also wish to access the technological know-how and the German and European market.

**5.2.2 Differences in motivation to invest in Germany**

While the case subsidiaries have a similar business focus on research and development, the case studies differ in ownership types and also have several motivations to enter Germany which differ from each other,

The motivations of Chinese owners to invest in the German market were similar. The reasons for the Chinese SOEs and POEs are to access the European market, acquiring technology, and advancing their R&D capabilities, see table 5.2. All brownfields invested into Germany to be exposed internationally and advance their international managerial and organisational skills. The Chinese owned greenfields also aim for R&D activities but otherwise vary in their motivations. Gaining access to technology and exposure to international management practices are typical reasons for Chinese state-owned companies to invest abroad (Buckley et al. 2007). These motivations
overall are typical reasons for Chinese companies investing in Europe (Child and Rodrigues 2005; Deng 2004; Gammeltoft 2008; Kolstad and Wiig 2012; Luo 2000; Luo and Tong 2007; Mathews 2006; Rui and Yip 2008). There are three notable observations on the case subsidiaries’ headquarters’ reasons to invest in Germany.

<table>
<thead>
<tr>
<th>Motivation</th>
<th>Motivation</th>
<th>Motivation</th>
<th>Motivation</th>
</tr>
</thead>
<tbody>
<tr>
<td>AutoCo</td>
<td>Market access</td>
<td>Accessing expertise and technology</td>
<td>Political motivation</td>
</tr>
<tr>
<td>HeavyCo</td>
<td>Market access</td>
<td>International management experience</td>
<td>Accessing expertise and technology</td>
</tr>
<tr>
<td>CarCo</td>
<td>Market access</td>
<td>R&amp;D</td>
<td>International management experience</td>
</tr>
<tr>
<td>EnCo</td>
<td>Accessing expertise and technology</td>
<td>International presence</td>
<td>Market access</td>
</tr>
<tr>
<td>InnoCo</td>
<td>Global presence</td>
<td>Accessing expertise and technology</td>
<td>N/A</td>
</tr>
<tr>
<td>MedCo</td>
<td>Avoiding Chinese negative stigma</td>
<td>Accessing expertise and technology</td>
<td>Market access</td>
</tr>
</tbody>
</table>

Table 5.2: Motivation of Chinese parent companies to invest in Germany

First, the parent company of MedCo is the only company who also wants to avoid the Chinese origin by investing in a German subsidiary. One reason is that health care is a sector where reliability, quality assurance, and certification have a significant impact. The general manager of MedCo thinks that the German certificate is well-recognised worldwide and sought for in health products. The tendency is that German products are associated with high quality and Chinese products with low quality and inferiority.
The general manager commented: “These shortcomings and stigma are that things are cheap in China because they are of lower quality and low labour costs. That is not always the case. The development is faster than the stigma dissolve.”

To avoid the Chinese stereotyping, the Chinese owner of MedCo invested into Germany.

Second, InnoCo is the only subsidiary where the HQ’s action and vision contradict each other. InnoCo’s employees had difficulties to answer the question about their Chinese parent company's motivation to invest in Germany and the reasons to internationalise for this Chinese POE remains somewhat ambiguous.

The community manager answered for instance: “That (the question) is tough, I think nobody here is well aware of the strategy. There is simply no clear strategy. (...) It is typical Chinese, they come and look what happens. There is a constant change of strategy. Maybe there is an overarching strategy, but it is shifting a lot. Daily actually. It is very opportunistic.”

Two reasons for this contradiction can be identified. First, the key performance indicators of Chinese HQ for InnoCo and the strict control measures contradict their creative work and InnoCo’s mission in Germany. The need to control InnoCo’s employees hinders the development of InnoCo. Therefore, employees are uncertain about the motivation of the Chinese parent company and work less efficiently towards the actual goals of the parent company. Second, the Chinese parent company states on its website that it aims for a global network, but this is not realised at InnoCo in terms of structure or mentality. The employees feel the opposite; they feel that they are discouraged to use the worldwide network because each subsidiary is measured by the KPI and if the subsidiaries are collaborating it is not clear who worked for which
results. Thus, on the one hand there is a certain motivation to internationalise but on the other hand this is not implemented because of the HQ’s organisational performance management practices and policies, the organisation’s structure and mentality.

Third, while the German companies acquired by Chinese companies have known their Chinese buyer beforehand, only interviewees at HeavyCo mentioned that personal relationships influenced the investment behaviour. The CEOs of the Chinese SOE and HeavyCo’s former parent company have known each other for more than 15 years and one interviewed attorney of HeavyCo’s former parent company mentioned that this relationship was key to the acquisition.

Avoiding the home country’s stereotypes, gaining an international image, and acquiring a deal because of the personal relations are exceptional reasons to internationalise. While these reasons are applicable to singular cases in this study, the reason which all studied companies hold in common in this study is the motivation to learn and acquire access to strategic asset, knowledge, and technology.

5.2.3 Differences in ownership types, and provinces

First, the ownership types affect the entry mode and size of Chinese FDI in Germany in this case study. While half of the studied German subsidiaries, CarCo, HeavyCo, and AutoCo, are brownfields acquired by Chinese SOEs, the other half are greenfield investments of which two are financed by POEs, namely MedCo, InnoCo, and one by a SOE, namely EnCo. The Chinese SOEs of these cases have made the largest investments in this study. This is not surprising as Chinese SOEs enjoy greater governmental support and financial access to invest overseas, compared to Chinese POEs (Liang, Lu and Wang 2012). CarCo is the regional headquarters and is
responsible for 7000 employees of which around 800 employees work in Germany. It is the largest subsidiary in this study. HeavyCo and AutoCo are medium-sized subsidiaries with 300 to 1100 employees whilst the three greenfield subsidiaries are the smallest, employing between 7 and 50 employees. In size and investment volume the studied brownfields here are bigger compared to the greenfields. EnCo is the only greenfield investment founded by a Chinese SOE. But it is the largest greenfield investment with more employees compared to the other two studied greenfields subsidiaries owned by Chinese POEs. This indicates that the Chinese SOEs have more financial resources for their overseas investments which is an overall trend of Chinese companies investing in Europe - see Chapter four section 1.7 and 2 for a review.

Second, among the studied Chinese SOEs, AutoCo’s parent company is the only parent company who is from an inland province of China. All other SOEs and POEs come from coastal areas. AutoCo’s parent company is also the only subsidiary where the management is the least integrated in the Chinese parent company and not much control is exercised by its Chinese HQ. Although AutoCo is a strategic asset for the Chinese SOE, the Chinese owner has achieved little with AutoCo after its acquisition. The company also has no clear vision for AutoCo and does not utilise its German subsidiary either for market access nor for comprehensive technology or knowledge transfer. Noticeably the Chinese SOE of AutoCo cannot produce high-quality products for the European market and it is thus not competitive globally. It appears that AutoCo’s parent company had the opportunity to access financial resources from the Chinese state and took the chance to internationalise. While AutoCo’s parent company originates from an inland province in China, HeavyCo’s parent company is exceptional compared to the others, in that it is from the coastal area, but its province was much later exposed to foreign direct investment compared to the provinces of the
other studied subsidiaries’ parent companies. Compared to CarCo and the other Chinese subsidiaries in this study, the Chinese SOE has an apparent focus to learn about ‘best practices’ from HeavyCo and to expose its young talents to its overseas subsidiaries. HeavyCo’s owner is motivated to catch up, not only with other international companies, but also with other Chinese enterprises which have been exposed to Western practices longer. The provinces of the Chinese SOE owning AutoCo and HeavyCo were later exposed to market mechanism and foreign direct investment compared to the SOEs of CarCo, EnCo, InnoCo, and MedCo. Other differences related to the province of origin were not noticed at this level.

5.3 Similarities of the Chinese parent companies in Germany

There are several similarities among the Chinese parent companies which allow these German subsidiaries to gain a greater control of their resources to different degrees: 1) international inexperience of Chinese parent company and the degree of autonomy of German subsidiary, 2) long-term commitment, and 3) the role of German subsidiaries.

5.3.1 Lack of international experience

Many interviewees across the different case companies mentioned that they perceive their Chinese colleagues as either eager to learn or lacking knowledge and expertise and thus have a need to acquire more knowledge. Some examples are presented here of being less experienced:

At AutoCo and HeavyCo, the German management team was retained, and the influences of the Chinese headquarters on the actual management was minimal. Interviewed managers at both HeavyCo and AutoCo consider the Chinese owner as too inexperienced and lacking capabilities to manage the German subsidiary well.
At AutoCo the HR manager commented: “The company acquisition has brought relatively little change. Especially concerning the fears of the employees. They [the Chinese managers] also have a hard time understanding our business models and mentality. There is a high learning effort. But we also have a shareholder who has now made his first noteworthy foreign acquisition. They also learn to one’s cost. They have to learn a lot.”

HeavyCo works council reacted after asking him what HeavyCo can learn from its Chinese parent company: “What do you mean with learning? In the beginning, we were a bit arrogant. For starters, we let them arrive and then let them observe us. (…) Of course, they should also learn from us here (at the German subsidiary). People are being taught. There are many engineers here to learn from our business. [They are here] to be trained, to return to the parent company. So, to speak, [they are here] to professionalize their work [at the Chinese parent company]. That is the collegial level. And then there is the topic of product know-how which is a big topic. So, they do not want to remove our know-how, but they want to tap it for their markets, their home markets, but also other markets.”

The business developer at HeavyCo stated: “I see some [Chinese] colleagues, they are younger, they sometimes ask me about certain topics. Some [German] colleagues are annoyed by this sometimes. It is different with me! I perceive them as extremely inquisitive. They want to learn something. For example, I had a young colleague who said: ‘You are really a teacher for me’. He studied one of my presentations to learn about my thoughts and my structure of my presentations. They [the Chinese colleagues] are curious, and inquisitive. They do not always know everything, but the next time certain things do not happen to them anymore.”
These quotes give an insight as to how the interviewed German employees and also Chinese expatriates perceive the Chinese owners and managers: namely, as partners who have to learn and to adapt to the German context. The German subsidiaries, however, do not need to learn from their new Chinese parent company except for cultural issues.

Contrasting to these cases is CarCo’s parent company who has engaged a global management team and strategy for its overseas subsidiaries. The interviewed employees at CarCo have expressed a positive image of their Chinese parent company. They also remark that they perceived an eagerness of learning among their Chinese colleagues, but that Chinese HQ stresses a mutual learning approach.

At CarCo one of the HR managers compared his Chinese colleagues with his previous experience in an American company: “I have often had a very different experience with American companies. For example, one of my former managers [of the former American parent company] was responsible for the European market and she did not even know that Europe is made up of several countries. I have not experienced this ignorance with the Chinese [colleagues]. They want to know everything and see everything. For instance, Chinese tourists in Europe (...). They take pictures of everything! I felt a small difference from the beginning. They are not arrogant, and cocky but they are inquisitive, and they absorb everything. There are many young and competent people working at Chinese headquarters who want to learn.”

Learning and the transfer of knowledge is also a focus at EnCo. The HR manager of EnCo thinks: “But learning is a general topic and the exchange of knowledge comes more to the fore. The Chinese colleagues are interested in Western management methods. And there is also the consideration of a few months-long exchanges between
Chinese HQ and EnCo. To send someone here, to see how we do and organise certain things here or for me to go there for a few months if I would want that. (...) It makes more sense for somebody being here watching me at my workplace and that person can transfer the observed to HQ from my point of view.”

At InnoCo, the interviewed senior business developer comments on this topic: “Learning is not realised but it is in the planning. The headquarters plans to increase the knowledge exchange among the foreign subsidiaries and Chinese headquarter. This is planned because there is the awareness that the exchange of knowledge is very important. We have to do that much more. But while we are a start-up, we are also very big and very fast. There are so many things which should have been done yesterday. (...) Our Chinese headquarters is very limited and naive. They have no idea, they do not know anything.”

In general, the interviewed German employees of all companies tend to see their Chinese colleagues and managers as less experienced and sometimes as even less capable. While the German employees of the greenfield subsidiaries seem to accept a lack of knowledge of their Chinese manager, the Chinese management of the acquisitions have to do more to convince their German subsidiary. CarCo has done so by appointing two German managers in the supervisory board. AutoCo’s and HeavyCo’s parent company have given their German subsidiary a high level of autonomy to compensate their lack of international management capabilities. All acquisitions compensate their lack of knowledge and international experience by granting the German subsidiary a high degree of autonomy (AutoCo and HeavyCo) or an influence at the parent company (CarCo).
5.3.2 Long-term interest

The new Chinese owners of AutoCo, HeavyCo, CarCo, EnCo, and MedCo seem to all have a long-term interest in their German subsidiaries. An exception is InnoCo’s parent company where the interest of the Chinese POE is ambiguous. All Chinese owner of the studied German brownfields have maintained the production plants in Germany, invested substantial sums, and expressed their long-term interest in their German subsidiaries. AutoCo, HeavyCo, and CarCo all received substantial investments for new plants and machineries in the double-digit millions. These investments were fulfilled despite AutoCo being not profitable since 2015 and HeavyCo experiencing a fall in the demand of its products after the acquisition. While AutoCo was able to retain its workforce, HeavyCo’s management had to dismiss 350 workers. HeavyCo’s works council respects that the Chinese owner treated the dismissal process fairly with even a relatively generous compensation. “Given the circumstances, the cut in the workforce was fair”, resumes the works council. The criteria of the social plan were fulfilled with a well-equipped transfer organisation, settlement, and volunteer programme. The Chinese owner was rather generous and did not attempt to save the last euro. The majority of the interviewees at HeavyCo believe that the Chinese owner is interested in the technology as long as the company has an advantage in its technological expertise.

HeavyCo’s works council member thinks similarly about the long-term interest of the Chinese owner: “It is a long-term investment. It is not a financial investment which should be profitable after three years and then they are gone again. It should last a relatively long time. You can also see that we are working in a new factory. Until a few years ago, this [the location of his office] was a green meadow, it was a parking
lot. Now here is a new plant. Therefore, we believe that this commitment, engagement ought to be longer. But we do not know for sure”

One of HeavyCo’s HR employees commented: “It is important to our [Chinese SOE] to have our advanced technology in their portfolio. They expect to roll our products out in the Chinese market. Our know-how is highly regarded. And they take a sustainable interest in us and currently support our company. Unlike the Americans. The recent redundancy of the 350 employee is driven by our financial situation, the banks and lenders. Not from the Chinese owner.”

The parent company of CarCo has also invested in a new factory in central Europe which is part of CarCo’s responsibilities as a regional HQ. CarCo’s owner also invested a sum in the double-digit million range in their new factories. These investments are a logical step in the technological development of the companies where research and development activities continue to present an important role. The HR manager II of CarCo thinks: “My experience here in this company is positive. See, what they did! They have invested, secured workplaces, factories, and production facilities. That is a positive story!”

MedCo and EnCo also build subsidiaries with a long-term plan. EnCo has found a German research institute which requires some substantial investment and in the future MedCo also plans to set up a dedicated R&D unit with relationships to local universities and other research institutes.

InnoCo is an exception. Its Chinese headquarters lacks a clear strategy for its overseas subsidiaries and therefore it is not clear whether this is a long-term investment. The pro arguments for a long-term vision of the Chinese POE for InnoCo is that the company’s vision is to provide a global network for its customers and even a second
German subsidiary was opened. The contra arguments are that the Chinese headquarters discourages rather than supports the international networking and exchange of knowledge among its employees. This is contrasting to the strategic aim of the parent company which is to provide a global network for its customers. InnoCo’s HQ does not reward but rather penalises teamwork among the (overseas) subsidiaries. Another contra argument is that InnoCo’s Chinese general manager prepares the location to become financially more independent of the parent company. Thus, InnoCo is an exception in this case study whereby the strategic intentions are ambiguous and InnoCo strives to become independent financially from its Chinese parent company.

In general, the Chinese parent companies have stressed their long-term interest which reassures the German subsidiaries of their importance and the role they play for the Chinese parent company. An exception again is InnoCo where the Chinese manager and employees are unsure about the business strategy for their location.

5.3.3 Role of subsidiaries

The roles of the German subsidiaries differ among the Chinese parent companies. Except for InnoCo, the studied subsidiaries create substantive capabilities through their research, development, and managerial activities. InnoCo is the only company where the benefits for the Chinese SOE (except for gaining an edge in the home market) are difficult to be identified and the Germany subsidiary contributes to its Chinese HQ relatively little with its research, development, and management activities. InnoCo’s strategic role is unclear and it also has little control over its resources as the parent company manages InnoCo closely.
HeavyCo, CarCo, and MedCo have similar roles in that they are all leading subsidiaries which create substantive capabilities for their Chinese parent companies through their research, development, and managerial activities. While CarCo’s activities are limited to its region in terms of responsibilities, HeavyCo, and MedCo both have a global reach. HeavyCo distributes its products worldwide and its brand is recognised globally in its field and the Chinese parent company seeks to learn from HeavyCo’s technological know-how and management practices. Thus, HeavyCo, CarCo, and MedCo have all strategic value for their Chinese parent company creating substantive added value for their Chinese owner through their research, development, and managerial activities.

AutoCo is regarded as a specialist by its Chinese parent company which could potentially contribute to the parent company’s R&D as well as local marketing and sales activities. While AutoCo’s added value is in theory clear, the lack of its Chinese parent company to supply it with raw materials weakens both AutoCo and its Chinese SOEs. As the Chinese SOEs do not utilise AutoCo’s resources and capabilities, the German subsidiary has an unusual position as it mainly serves as a potential gate for the market access of the Chinese owner who can utilise this. EnCo is in this sense similar to AutoCo in that the Germany subsidiary indeed generates added value for its Chinese SOE with its R&D capabilities but other than that it has few added benefits at the moment which could be for example accessing European funding or selling the parent company’s products in Europe.

The role of the subsidiary can influence the autonomy of the subsidiary and the extent to which they can control their resources. The majority of interviewees at AutoCo and InnoCo question the strategy of the Chinese parent company. The interviewees not only at AutoCo and InnoCo - where the political influence is most evident - but also
the other case subsidiaries thought about or mentioned the political support and influence on Chinese companies to invest abroad. This is regarded by most interviewees as a push factor for the Chinese parent companies to invest in the German subsidiary. The parent companies of HeavyCo, CarCo, MedCo, and EnCo have a clear strategic goal with their German subsidiaries and except for EnCo utilise the advantages of their German subsidiary well, the parent companies of AutoCo and InnoCo lack a clear strategic goal with their German investment and do not actively develop their German subsidiaries.

5.4 Conclusion

This chapter described the context of the case subsidiaries; first the brownfields AutoCo, HeavyCo, and CarCo, and then continuing with the greenfields MedCo, InnoCo and EnCo. It then compared the cases on the basis of ownership type, motivation to invest into Germany, management arrangement of the German subsidiary, the long-term interest in the German location and the lack of international experience of Chinese HQs.

With regard to management, it is retained at all three German acquisitions sites (see table 5.3 for an overview). The greenfields all started with a Chinese management team: EnCo has kept its Chinese expatriates as a management team since its start in Germany, MedCo’s manager has transferred his responsibilities to his German deputy manager during the last year of the fieldwork, and InnoCo’s parent company had to replace its Chinese manager with a new Chinese manager who already had working experience in Germany. Such light-touch approaches have been observed by others where the Chinese headquarters and a few posted expatriates assume a supporting or observing role in their acquisitions (Knörich 2010; 2016b; Liu and Woywode 2013).
These arrangements result from the inexperience of Chinese firms in managing and especially integrating international acquisitions, and from the asset-seeking nature of many acquisition deals. This study shows that light-touch arrangements not only occur in M&As but also in greenfield investments in Germany.

The lack of international management experience and local knowledge of the Chinese parent companies was often also reflected in the high growth targets announced by Chinese HQs, including AutoCo, HeavyCo, MedCo, EnCo, and InnoCo. In the eyes of the German interviewees these targets appeared unrealistic. Although the German companies did not reach the high target goals, the Chinese owner have invested in the German subsidiaries to expand the location (present in all cases), increase research and development activities (EnCo, CarCo, HeavyCo, and MedCo), and/or boost production capacities (AutoCo, HeavyCo, and CarCo).

<table>
<thead>
<tr>
<th>Subsidiary's management team</th>
<th>AutoCo</th>
<th>HeavyCo</th>
<th>CarCo</th>
<th>MedCo</th>
<th>InnoCo</th>
<th>EnCo</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management team</td>
<td>German management team</td>
<td>German management team</td>
<td>German/International management team</td>
<td>Chinese expatriate general manager and German deputy manager</td>
<td>Chinese expatriate general manager</td>
<td>Chinese management team</td>
</tr>
<tr>
<td>Changes in management since the entering of the Chinese parent company</td>
<td>new Chinese CEO (after fieldwork)</td>
<td>no changes</td>
<td>no changes</td>
<td>the German deputy manager has taken over the responsibilities (2017)</td>
<td>Chinese manager with work experience in Germany (2017)</td>
<td>no changes</td>
</tr>
<tr>
<td>Decision Making Organ</td>
<td>Supervisory Board</td>
<td>Supervisory &amp; Advisory Board</td>
<td>Supervisory Board</td>
<td>Management Team</td>
<td>Manager and Chinese parent company</td>
<td>Management Team and Chinese parent company</td>
</tr>
<tr>
<td>Chinese expatriates</td>
<td>02-Jan</td>
<td>15</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>16</td>
</tr>
<tr>
<td>Subsidiary expatriates at the Chinese HQ</td>
<td>0</td>
<td>0</td>
<td>10</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Table 5.3: Details about the management of the case subsidiaries
The Chinese headquarters vary only moderately in their mechanisms to control their German operations except for InnoCo and EnCo. The majority uses personal but indirect control mechanisms. AutoCo’s parent company is the only Chinese MNE which does not rely on expatriates to control the German unit. With the appointment of a new Chinese CEO, this will have changed. HeavyCo, CarCo, MedCo, and EnCo all have expatriates to control their German locations. Although MedCo’s Chinese general manager is more absent than present at the German plant, the control mechanisms are similar to HeavyCo, CarCo, and EnCo. InnoCo is tightly controlled and is the only company where the management is led by the Chinese HQ, including human resource and accounting tasks. The difference in the control mechanism is reflected in whether or not the company applies a light-touch approach.

The light-touch approach is popular among the case companies. Similar to the examined cases, the studies of Cooke (2012), Cooke and Lin (2012), Fan and colleagues (2013), Spigarelli and colleagues (2013), Zhang (2003), and Zhang and Edwards (2007) report a lack of capabilities and international experience of Chinese companies to independently manage the foreign subsidiaries and human resources. Considering the fact that Chinese companies aim to access knowledge and technology from their German subsidiaries and lack international experience the agency of local actors becomes more important. The following section examines the extent to which organisational actors of the German subsidiaries use the context to shape HR and ER practices and policies.

The difference in ownership types of the Chinese parent companies, state-owned and private-owned, correlates with the difference in entry mode and size of their German subsidiaries. State-owned companies have invested larger sums into their Germany companies compared to the studied private-owned companies of the case subsidiaries.
in this study. It is evident here that Chinese SOEs own the larger German subsidiaries. In contrast, the case subsidiaries of the private-owned companies enter the German market exclusively via smaller greenfield subsidiaries with less than 10 employees. The reason for this difference in investment size (as earlier mentioned in the institutional chapter) is that the Chinese state has regulated, guided, and promoted outward FDI through various legal measures and institutional frameworks (Luo et al. 2010; Sauvant and Chen 2014; Knörich 2016a). Such government influence and support has especially targeted SOEs and has ranged from preferential treatment (e.g. providing easier access to finance) to regulatory control and even the occasional prohibition of specific investment projects. These policies result in OFDI differences among Chinese SOEs and POEs, including SOEs setting up large greenfield units, engaging more frequently in mergers and acquisitions, and investing in higher volume in Europe. Chinese POEs, however, invest in more projects in Europe compared to SOEs (Hanemann and Huotari 2016).

The influence of the Chinese state is also reflected in its economic policy, through which it slowly opened up its economy. The majority of the Chinese MNEs of the case subsidiaries have their origin from the coastal provinces in China. An exception is AutoCo’s parent company which is from an inland province of China. This might explain why AutoCo is also the only subsidiary where the management is the least integrated in the Chinese parent company, and where very little control is exercised, and no strategic direction is given by its Chinese HQ. AutoCo also developed no immediate benefits from having a Chinese owner.

A common feature of the cases is the similar motivation of Chinese owners investing into the German market: accessing the European market, acquiring technology, and advancing their R&D capabilities and managerial skills. Although uncommon for
MNEs in general, such behaviour to gain advantages through strategic asset-seeking FDI in Europe and other leading economies instead of exploiting ownership advantages is typical for Chinese companies (Luo and Tung 2007; Knörich 2012; Zheng et al. 2016). Such strategic asset-seeking objectives appear to be useful to latecomers in the global market, in order to overcome their competitive disadvantages.

Besides this common motivation to enter advanced economies, MedCo is distinct in that MedCo’s POE has invested into Germany to avoid the stereotype of being of Chinese origin. Such motivation is rarely mentioned in the literature about Chinese FDI and the influence on the affected overseas subsidiaries has, to the knowledge of the author, not yet been studied.

A second distinct feature of the CMNEs of the German case subsidiaries is that all Chinese owners appear to have a long-term interest in their German units. While the owners of AutoCo, HeavyCo, CarCo, MedCo, and EnCo either clearly state this or took clear actions in this direction, the interests of InnoCo’s HQ are unclear. While the mission of InnoCo’s POE is to build a global network (a long-term goal), the HQ does not take clear actions towards building such a network. Any efforts of knowledge transfer to the Chinese owner would, however, have to be a long-term endeavour that involves positive and effective collaboration with the European subsidiary. Therefore, it is not surprising that this long-term interest in the German location is a common feature for the Chinese MNEs of the studies cases.

Related to this second distinct feature is the fact that the roles of the German subsidiaries tend to create substantive capabilities for the Chinese parent company. They focus on their R&D and managerial activities to tap into local skills and/or to obtain and learn technological and managerial expertise (Knörich 2010). Identifying
the purpose of InnoCo in Germany is challenging and therefore it is unsurprising that
the subsidiary does not have a clear benefit for its Chinese HQ.

A third similarity among the case subsidiaries is that the investments occur in the
sectors which are in line with Chinese OFDI policies. Outward FDI is guided by
China’s industrial policies so that it dovetails with China’s economic and strategic
interests (Luo et al. 2010; Sauvant and Chen 2014; Knörich 2016a). For example,
acquisitions and the establishment of R&D centres in advanced economies, such as
Germany, have been encouraged and supported by the National Development and
Reform Commission, China’s development planning body, to obtain foreign know-
how (Luo et al. 2010). In light of such investment policy, the similarity in motivation,
entry point, interest, and sectors (in that they are all important to the Chinese industrial
policies) are not surprising because of the Chinese governmental influence on Chinese
OFDI.

The studied German subsidiaries do experience a host country influence through their
Chinese owners (with the exception of InnoCo). One of the main sources of
motivation for the Chinese owners is to access the German market, capture
knowledge, technology, and to transfer newly gained competitive advantages back to
China. This in combination with the strong German industrial relation system and its
influential works councils allows local organisational agency to exert agency.
Additionally, the few Chinese expatriates at AutoCo (one expatriate), CarCo, and
MedCo do not exert a great influence on their German subsidiaries. The inexperience
of the Chinese parent company, the preference for a light-touch arrangement with the
German subsidiaries, and the long-term interest in the German subsidiaries increase
the power resources and decision-making capability of the local actors of the case
subsidiaries. In addition, the link between the studied investment of the Chinese state
and/or the Chinese industrial policies has increased initial suspicion among management and employees and weakened the power position of the Chinese owner. Local actors of German subsidiaries thus draw from system, institutional, market, dominance, and organisational effects to explain the local management and control processes. The subsequent chapter examines which characteristics of the environment (system, institution, market, and company) are used by the organisational actors to initiate or prevent changes in human resource management and employment relations of the six German case subsidiaries.
6. The influence of Chinese ownership on the workplace management of German subsidiaries

6.1 Introduction

This chapter continues to discuss the six case studies which were introduced in the previous chapter. The preceding chapter considered the organisational background, the motivation of the Chinese parent company to invest in the German subsidiary, and the management of the case subsidiaries. All case subsidiaries were motivated to invest into the German market for access to knowledge, technology, and market access to Germany and Europe. All subsidiaries, be it to different degrees, also undertake research and development (R&D) activities.

This chapter focuses first on the human resources (HR) and employment relations (ER) practices and policies of German subsidiaries owned by Chinese companies and how the local actors affect the HR and ER practices and policies. Some HRM practices and policies are affected more than others during the transfer between headquarters and subsidiaries. In more regulated business systems, such as Germany, local regulations may have a high impact on various aspects. This can include work organisation, employee participation and representation, the extent of employees’ benefits, annual paid time off, bonuses, participation in executive decision-making, gender composition of management, and training (Ferner 1997, Rosenzweig and Nohria 1994). Other HRM practices, such as payment systems, development, and employee communications are generally less likely to be regulated by host country institutions and more likely to be influenced by their parent company’s practices and policies. Other researchers have reported that the influences of host country institutions and parent companies are more ambiguous and that some HRM practices
are more subject to the host country effect than others (Lu and Björkman 1997; Myloni, Harzing and Mirza 2004). As unique home and host country effects differ according to specific practices (Lu and Björkman 1997; Rosenzweig and Nohria 199; Ferner 1997) this project focuses on examining specific HR and ER practices and policies, namely 1) recruitment and selection, 2) pay and performance, 3) training and development, and 4) employee representation. The former two areas: recruitment and selection, and pay and bonuses, are examined because these practices can be more easily transferred to the foreign subsidiaries by the headquarters. The latter two are selected because they are highly subject to the influence of the German host country effect.

The interactions between HQs and their subsidiaries have long been discussed in terms of the diffusion of organisational practices within MNEs. Much of the literature on this issue is concerned with the flows of organisational practices from the home country to the host country (e.g. Gamble 2010; Edwards et al. 2007; Ferner 1997). This is often termed as ‘forward diffusion’. By contrast, some authors have been interested in the process of ‘reverse diffusion’ which refers to the flow of practices from subsidiaries to HQs (e.g. Colling and Ferner 2005; Edwards and Ferner 2004; Edwards 1998; Zhang and Edwards 2007). Few studies, however, have examined how the HR practices of foreign subsidiaries in developed economies are affected if the headquarters are based in an emerging economy and exhibits asset-seeking behaviour.

This research adopts a multi-level approach framework, based on the combined framework from the work by Edwards and colleagues (2007) and Delbridge and colleagues (2011), to understand the interplaying factors shaping HR and ER practices and policies of Chinese MNEs operating in Germany. Providing a more holistic understanding of the HRM and ER management practices of foreign subsidiaries, this
multi-level framework locates the construction and development of practices and policies at the interaction stage of the system, institutional, dominance, market, organisational, and micro-political level. HRM and ER are important areas for headquarters to access such knowledge successfully from their subsidiaries. This research focuses on the employee participation, recruitment and selection, pay and performance, and training and development practices and policies of the six case studies.

Market pressure and the multiplicity of institutional terrains are likely to exert conflicting pressures that come to the fore when practices are transferred within MNEs (see Edwards et al. 2007; Ferner et al. 2012). The fundamental idea of the market-based perspective is the notion that market pressures influence the HRM and ER practices and policies within MNEs and their foreign subsidiaries. Companies develop and absorb competitive advantages, including ‘best practices’, organisational structures, and processes which they transfer to their subsidiaries with the hope to benefit from them across the border (Taylor et al. 1996). Successful companies, sectors, or nations can be perceived as having superior practices compared to their competitors. Smith and Meiksins (1995) define this as the dominance effect. The majority of the literature attests, however, that Chinese companies lack international competitiveness, including in terms of their technological, managerial, or innovative capabilities (Andreosso-O’Callaghan and Qian 1999; Child and Tse 2001; Deng 2009; Knörich 2010; Steinfeld 2004; Yang 2005). It is intriguing to examine how this affects the workplace management of Chinese MNEs investing into more advanced economies, such as the German one. Studies focusing on Chinese investment into more mature economies found that this kind of investment often occurs with the goal of improving firm competitiveness and sourcing assets, such as technology and
knowledge (Deng 2007, 2008; Hong and Sun 2006; Child and Rodrigues 2005). Findings have shown that M&As are a particularly effective strategy for Chinese companies to gain quick access to the knowledge and technology through their acquired companies (Inkpen 1998; Knörich 2010; Ranft and Lord 2002). In order to be successful in the German market and to successfully transfer knowledge from their German subsidiaries back home, Chinese firms must develop HR strategies for their German subsidiaries if they aim to access and transfer the tacit knowledge, embedded in the firm's procedures and personnel. Indeed, all case companies are interested in the local expertise, although to different degrees.

HRM and ER practices and policies are also strongly influenced by the host country. Germany is a coordinated market economy (Hall and Soskice 2001) in which its local institutions can constrain the forward transfer of HRM and ER management from foreign companies, more so than in liberal market economies countries (Geppert and Williams 2006; Almond and Ferner 2006). There are several institutional differences and similarities between China and Germany with regard to the HRM practices here focused on (these are reviewed in chapter four in more detail). First, the biggest difference between China’s and Germany's institutional environment with regards to HRM and ER is the role of trade unions. While China has one recognised trade union, the ACFTU, Germany has a dual representation system consisting of independent trade unions and works councils. The difference between the Chinese and German employee representation system can pose a major challenge for Chinese companies operating in Germany (Xing et al. 2016; Bian and Emons 2017). Second, if Chinese companies aim to transfer pay and performance practices and policies, the collective agreements and works council are a constraining factor to such transfer intentions. Collective agreements are legally binding in Germany and a lack of understanding of
the dual system of employment relations can create competing pressure on pay practices. Third, with regard to recruitment and selection, both countries seem to have similar practices. In China, recruitment and selection practices can vary among companies but they tend to be a mix of ‘best practices’ and *guanxi*. *Guanxi* may affect German subsidiaries in two ways. First, the selection of Chinese expatriates can be influenced through *guanxi*. Second, if Chinese managers are involved in the recruitment and selection work, such informal practices can impact the recruitment and selection outcomes. Although such networking practices are less pronounced in Germany, personal connections can also help during the job search and with applications in the German labour market (e.g. Marsden and Gorman 2001). Fourth, Germany’s vocational education system is recognised worldwide and has given the country a competitive advantage in the manufacturing and high technology sector in the global market (Culpepper and Finegold 1999). The high skill level of German manufacturing workers and engineers may weaken the credibility of Chinese expatriates. In comparison, Chinese companies focus less on formal training (Cooke 2009). These coordinated elements of the German institutional context enable local actors to continue using local practices in particular employee representation, pay and performance, and training and development practices. Some institutional aspects of the German context can serve as a powerful resource to local actors of German subsidiaries owned by Chinese companies which can hinder changes.

Although the HQ traditionally has control over many processes, resources, and meanings, subsidiaries can also access power resources. Subsidiaries are dependent both on their HQ as well as the host country which creates an ‘institutional multiplicity’. The internal political processes are crucial in how actors can exercise agency. Edwards and colleagues (2007) mainly focus on how the embedded actors
draw on their power resources of the external (institutional and market) environment to negotiate transferred organisational practices from the HQ. This study is particularly interested in the linkages of systems, national institutions, markets, organisational characteristics, dominance effect, and micro-political processes as well as how subsidiary's management can employ the given power resources to influence decision-making processes. The transfer process of Chinese companies can be affected by the power capabilities of the receiver unit, the German subsidiaries – which have to be seen relative to those of HQ (Ferner et al. 2012). For example, a subsidiary with significant power resources can shape the development of the policies or practices within the MNE and can negotiate with the HQ about its role. Examples of such power resources owned by foreign subsidiaries include the delivery of a substantial proportion of the MNE's profit (e.g. Edwards et al. 2007), access to key markets, and the possession of significant knowledge, expertise, or functions for the MNE's success (e.g., Andersson and Forsgren 1996; Dörrenbächer and Gammelgaard 2010). The studied German subsidiaries provide their Chinese owner with access to the German and European market and can also provide a source of technology and expertise which increases the power of the German subsidiaries. Also, the scepticism toward China and its MNEs in Germany may increase the power resources of subsidiary actors and constrain the power of the Chinese HQ. The previous chapter shows that most German cases have a relatively strong position within the Chinese corporation.

The following section analyses how market conditions, host and home country context, organisational characteristics, and the interactions between the German subsidiaries and the Chinese HQs are used by the organisational actors of German subsidiaries owned by Chinese companies to shape different HR and ER practices and
policies on which this research focuses. This chapter is structured as followed: 1) general observations that are reported about the HRM work in each case subsidiary; it is followed by the examination of 2) the employment representation, 3) recruitment and selection, 4) pay and performance, and 5) training and development practices and policies. Each section first discusses the acquisitions and then the greenfields.

6.2 Human resource management and ER

Overall, the Chinese owners in each case seems to accept German HR and ER practices in the acquisitions and adopt to the German context, except for InnoCo where the HRM practices are managed from Chinese HQ and CarCo where the local and global practices are combined. Table 6.1 provides an overview of the cases’ HR departments and their HR practices.

**Acquisitions**

Both AutoCo and HeavyCo have been separated from their former German parent company and the new Chinese parent companies did not offer any HR integration strategies to the German subsidiaries in general and the HR departments in particular. The outcomes are similar for the HR practices and policies at AutoCo and HeavyCo. Both AutoCo and HeavyCo took over the known formal system from their previous German parent companies and altered this to their needs. As the two subsidiaries were not integrated into a new corporation, they experienced a change from being a unit of a large corporation to becoming a middle-sized company. HR practices were partially adapted to this change rather than to the change of a Chinese owner. Both German subsidiaries did not experience any changes in the HR department induced by their Chinese parent company at the HRM department. Although it is not uncommon for acquisitions to maintain their practices, the degree of freedom and control of AutoCo
and HeavyCo was nevertheless a surprise to the management teams of both subsidiaries.

<table>
<thead>
<tr>
<th>Subsidiary's management</th>
<th>AutoCo</th>
<th>HeavyCo</th>
<th>CarCo</th>
<th>MedCo</th>
<th>EnCo</th>
<th>InnoCo</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nationality of HR team</td>
<td>German</td>
<td>German</td>
<td>an international team</td>
<td>German deputy manager</td>
<td>German HR manager and Chinese expatriate</td>
<td>managed from Chinese HQ</td>
</tr>
<tr>
<td>Size of HR team</td>
<td>5</td>
<td>4 + 1 Chinese HR expatriate</td>
<td>20</td>
<td>0</td>
<td>1,5</td>
<td>0</td>
</tr>
<tr>
<td>Notable changes of HR policies</td>
<td>no</td>
<td>no</td>
<td>process of developing and implementing a global HR strategy</td>
<td>adopting more local practices through the German deputy manager</td>
<td>change from a standardised to a localised approach</td>
<td>no</td>
</tr>
<tr>
<td>Recruitment &amp; selection</td>
<td>no Chinese parent company influence</td>
<td>no Chinese parent company influence</td>
<td>no Chinese parent company influence</td>
<td>informal practices</td>
<td>a mix of formal practices and guanxi</td>
<td>formal 2 steps system influenced by guanxi</td>
</tr>
<tr>
<td>Pay</td>
<td>collective and firm level agreements</td>
<td>collective and firm level agreements</td>
<td>collective and firm level agreements</td>
<td>Chinese HQ determined initial pay structure but initially below market average but during the fieldwork adapted to the market average</td>
<td>Chinese HQ determined salary structure not transparent below market average</td>
<td>Consultancy advised a pay structure adapted to the European market</td>
</tr>
<tr>
<td>Performance</td>
<td>formal annual performance review</td>
<td>formal annual performance review</td>
<td>formal annual performance review</td>
<td>regular informal performance review</td>
<td>formal annual performance review</td>
<td>no formal and irregular performance review</td>
</tr>
<tr>
<td>Training &amp; development</td>
<td>health &amp; safety training trainings can be requested</td>
<td>health &amp; safety training the extent of the formal</td>
<td>health &amp; safety training Additional formal training</td>
<td>health &amp; safety training, no formal training</td>
<td>trainings can be requested</td>
<td>no trainings offered</td>
</tr>
</tbody>
</table>
The HR teams of AutoCo and HeavyCo work independently from the Chinese headquarters and coordinated their decisions only with the subsidiary’s general manager. While AutoCo’s HR manager has very limited contact with the Chinese headquarters, HeavyCo’s HR manager has regular biweekly meetings with one of the Chinese expatriates who is located in his HR department. The HR manager describes this more as a ‘mentoring session’ where he explains the German system and clarifies any uncertainties for the Chinese expatriate. The Chinese colleague does not hold a managerial function in HeavyCo’s HR department. He works mainly on projects from the Chinese headquarters or from the Chinese manager at HeavyCo and he is not involved in any HR projects of HeavyCo. Thus, the HR departments of both AutoCo and HeavyCo operate independently of the Chinese parent company to a large degree.

In contrast, the third case acquisition of this research, CarCo, has implemented the global strategy of its Chinese parent company. The international management team of CarCo's parent company determines the global HR strategy for the regional headquarters and CarCo implements this and adapts it to the local standards. The global HR strategy developed by the headquarters is locally adapted. The HR teams of the three regional centres work together on international projects which are

<table>
<thead>
<tr>
<th>Apprenticeships</th>
<th>yes</th>
<th>yes and dual study program</th>
<th>yes</th>
<th>no</th>
<th>no</th>
<th>no</th>
</tr>
</thead>
<tbody>
<tr>
<td>training program offered depends on the economic situation of HeavyCo</td>
<td>program offered</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 6.1: HRM characteristics of the case subsidiaries
determined by the supervisory board. The HR department of CarCo has a regional HR manager which reports to the global HR director. The HR teams have weekly calls to coordinate their HR work and international HR projects across the three regional headquarters. CarCo’ HR department is thus not only influenced by the Chinese parent company but also joins the framing of the decision-making process at the Chinese headquarter.

The main difference between CarCo on the one hand, and HeavyCo and AutoCo on the other hand, is that CarCo's business functions work together across the regional centres and CarCo work directly together with the Chinese parent company. CarCo implements the global HR strategy but also conforms to the HR and ER practices and policies of the German institutional context. The HR departments of the three regional headquarters collaborate on the international projects. In contrast, AutoCo and HeavyCo plan and implement their HR practices and policies independently of their Chinese headquarter. Both case subsidiaries, AutoCo and HeavyCo, do not regularly report about their HRM work to the Chinese parent company.

**Greenfields**

The studied greenfield subsidiaries approach the human resource management differently compared to the Chinese acquisitions in this study: MedCo manages its HRM tasks informally, InnoCo’s HR issues are all managed by the Chinese headquarters, and EnCo’s new HR manager builds a new HRM system which conforms to the German laws and regulations. The main difference between the greenfield and brownfield subsidiaries in this study is the company’s size which is reflected in the nature of the HRM practices of the German subsidiaries. While the brownfields of this case study all have an established HR system adapted to the
German context, MedCo has no formal HR system, EnCo has been building a new HR system which suits the German context, and InnoCo is managed from China.

MedCo has a pragmatic approach to the HR work. The subsidiary neither has a designated HR manager nor does it receive support for HR issues from the Chinese headquarter. Instead, the German deputy general manager handles all HR issues (ad hoc). In general, the deputy manager has developed the present HR practices by using his personal network. The HRM work is thus not professionalised at MedCo and can be described as pragmatic. Such informal and flexible HR management is common among smaller companies (Mayson and Barrett 2006). Therefore, this approach does thus not necessarily reflect a typical Chinese characteristic.

Similar to MedCo, InnoCo also has no designated local HR manager. Whereas MedCo manages its HR tasks independently, InnoCo’s Chinese headquarters manages all HR aspects of the German subsidiary from China, including the administrative, legal, and financial aspects of HR. InnoCo’s general manager is responsible for the local recruitment and selection but the final decisions are coordinated with the Chinese parent company. Although the current Chinese general manager of InnoCo recruited a German employee with HR work experiences, he does not delegate any HR responsibility to his team.

At the beginning, EnCo’s parent company transferred its home country HRM practices and policies from the Chinese headquarters to the German subsidiary. To be able to successfully implement its HR system, EnCo initially recruited a German sinologist for the HR position. This was, however, unsuccessful and therefore the company engaged a head-hunter to recruit a new local HR expert. The current German HR manager is neither fluent in Mandarin nor has Chinese working experience. Thus,
the new HRM practices and policies aligned with the German institutional context were developed by the current HR manager.

The HRM manager describes EnCo’s HR system as follows: "At the beginning the HR system was from China and then we [the HR team of the German subsidiary] picked it up from there. (...) The [HRM system] change has started with me. I had to build up everything. You cannot adopt a lot (from the Chinese parent company) which might be the case with other subsidiaries. Because the tools from China cannot be easily transferred. (...) The company’s goal is to build a German company although this is a subsidiary of a Chinese conglomerate. But the long-term vision is to become a German or European company. This means setting up a new HRM system, building new tools, and create templates. (...) Many [HRM] practices are regulated by the German state. They are uniform. So, I do not accept anything that is questionable with regard to legal matters. But it was still exciting to see how it is there [at the Chinese headquarter]."

To sum up, InnoCo’s HR is the only subsidiary in this study where the HRM system and the majority of tasks are managed from the Chinese headquarters. AutoCo and HeavyCo’s HR department control their own HR practices and policies. The two subsidiaries, as well as MedCo, are not structurally integrated or connected with the Chinese HRM department. MedCo and its parent company have an informal and pragmatic approach to the HR work. EnCo’s parent company was unsuccessful in transferring its practices to its German subsidiary and changed to a localisation strategy.
6.3 Employment Representation

Germany’s employment relations system consists of a dualistic presentation of workers: trade unions and works councils (Tempel et al. 2006). At the workplace level, employees are represented by the works councils upon which this research focuses. Although works councils can be set up in companies with more than five employees (the Works Constitution Act), it is not typical for small companies in Germany to elect works councils (Festing 2012, Freeman and Lazear 1994). This is also the case in the greenfields subsidiaries of this case study. Works councils have a range of formal rights, including information and co-determination rights (Doellgast and Greer 2007). Overall, the works council can ensure increased workplace security and the commitment of the workforce to long-term goals. In practice, the cooperation between the works council and management can vary from attempting to bypass or minimise the influence of the works council or establishing a respectful co-management relationship between both (Kotthoff 1998). The possible variety of the relationships between the works council and the management team is also seen in practices in the case studies ranging from being cooperative to mistrusting each other.

Among the six cases in this study there is a clear distinction between Chinese acquisitions and greenfields. The Chinese investors that acquired AutoCo, CarCo, and HeavyCo have accepted German participation and works council’s codetermination rights, complying with the respective collective bargaining agreements, and remaining as members of the employer associations. In contrast, the employees of the three greenfields have not elected a works council. The interviewed employees of the greenfield subsidiaries were surprised when the question about employee representation was raised. The absence of the works councils in the three small cases is thus not necessarily a sign of the effect of the Chinese home country whereby
Chinese companies aim to avoid employee representation, but rather it is to do with the small size of the subsidiaries. If the interviewed employees have problems at the workplace, they tend to discuss this directly with their respective general manager at InnoCo and MedCo, and with the team leader at EnCo. While MedCo’s deputy general manager and EnCo’s HR manager aim for transparent, open communication relations with their colleagues, InnoCo’s general manager is perceived as reserved and not easily approachable by the employees. At EnCo, the relationships vary within the teams and their group dynamics. Some team leaders are more approachable than others. The employment representation is distinct among the greenfield and brownfield cases and the size of the subsidiaries in this study. While the acquisitions are middle sized to large units which are required to have a works council, the greenfield cases are small units which are not obliged to elect a works council and have not done so.

**Acquisitions**

This section discusses each acquired subsidiary separately. First, it discusses the assurances made by the Chinese buyers to the workforces of the German acquisitions, AutoCo and HeavyCo, prior to the sale. In addition, it looks into the relationship between the respective works councils and their managements.

Before the acquisition of AutoCo and HeavyCo, the Chinese buyers of AutoCo and HeavyCo were asked to provide assurances that they would keep their employees and the location to the local workforce before the businesses were sold to the Chinese companies. CarCo does not have such an agreement. These assurances, in the form of ‘best owner’ agreements, stipulate guarantees to continue the production at the location and the employment of the workforce at the point before the sale. In both
cases, the contracts ensure the location and employment of the present workforce in the German locations for the coming five years after the deal. Furthermore, these agreements express the intention that the Chinese companies do not plan to close down the German subsidiaries in the near future. These agreements emphasise the Chinese commitments to the original German location and to reassure the local workforce of the Chinese company's ‘good intentions’. A side benefit of these agreements is that they allow the local works councils to consolidate their power resources within the subsidiaries for the length of the contract.

Interestingly, these ‘best owner’ agreements came about very differently for AutoCo and HeavyCo. While AutoCo’s works council fought ruthlessly for such an agreement, opposing the interest of its former parent company and AutoCo’s management, HeavyCo’s management strongly supported the works council to negotiate such an agreement with the new Chinese owner.

*AutoCo’s works council*

To achieve the acquisition deal of AutoCo, the Chinese side had to give assurances in order to convince the German works council to not resist the sale. AutoCo's works council pressured the Chinese SOE and the German parent company to sign not only a ‘best owner’ agreement but also two supplemental agreements, and a letter of comfort. The reason for the works council’s decision to resist the initial sale to the Chinese company with only a simple ‘best owner’ agreement is that as previously mentioned, AutoCo had received its raw materials from the former German parent company. The works council was aware before the carve out that the Chinese buyer would not be able to produce to the required quality and that AutoCo was therefore likely to become unprofitable after the sale to the Chinese buyer. If the works council member had agreed to the initial ‘best owner’ agreement the Chinese SOE could have
quickly dismissed the local workforce because of AutoCo’s negative development after the sale. The works council leader said that ‘they would have been like a lamb going to the slaughter’. This is the reason why AutoCo’s works council sought something further than just the ‘best owner’ agreement.

During these negotiation for a better ‘best owner’ agreement with the Chinese buyer, the German works council leader and its other members were pressured by the German management team to concede. During the battle, the works council updated the employees about the acquisition process during company’s meetings. The works council leader narrates the following about the developments regarding the ‘best owner’ agreement:

“I could not sign that paper [the original ‘best owner’ agreement]. That would have immediately justified the dismissal of the [local] workforce by the new owner. (...) Then the trade union raised their concerns and they said no [to the ‘best owner’ agreement]. After that the fight [with the German management and Chinese buyer] started relatively quickly. (...) The management began with threatening gestures, but our standpoint was that we will not just sell cheap. Of course, this became a big issue. It was intense. They called daily to threaten the works council and argued that because of me [works council leader] and my attitude the sales process was delayed, and the Chinese got cold feet. The Chinese did not understand what to expect exactly as the German co-determination system was explained quite differently to them. The management intimidated me with the accusation that if the company is not sold, it is my fault. ‘Then we will kick you out. We have a business deal, that is our company, you cannot stop the sale’. I replied to the threat that they could sell it after all. But then he said that I have to keep my mouth shut. So, I replied that if I am legally wrong, then they can terminate me. That was the end of the fight.”
It is important to note that AutoCo’s works council held more negotiating power for several reasons. First, the Chinese buyer was the only reasonable buyer for AutoCo. Second, AutoCo's works council recognised that the Chinese buyer held a strong desire to buy AutoCo for its technology, expertise, and market access. Third, the works council leader had developed good working relations with one of the managers who passed crucial information to the works council to be able to negotiate with the German management and Chinese buyer. The strong motivation of the German company to sell, the desire of the Chinese SOE to enter the German market, their lack of knowledge of the German market, and their international inexperience were used by the works council leader to pressure both the German management and the Chinese buyer not only for a ‘best owner’ agreement but also for the two additional supplemental agreements and a letter of comfort.

The ‘best owner’ agreement stipulates the following:

1. The existing location of AutoCo remains as it is.
2. AutoCo’s locations persist for the following five years.
3. All employees, including the management of AutoCo, stay on and are guaranteed to be contracted for the following five years.
4. AutoCo will remain a member of the employer association, and the collective and company level agreements continue.
5. Employees receive a profit-sharing bonus.
6. The apprenticeship system stays in place.

The Chinese parent company of AutoCo signed a ‘best owner’ agreement which acknowledges the German employment relation system. Additionally, this agreement allows the local trade union and the works council to supervise the new Chinese owner and check whether it maintains its collective bargaining agreements. To enable this an integration advisory board was set up consisting of the works council members and
representatives of the regional trade unions. The company has adhered to all the agreements after the sale and the integration advisory board has not noticed any violations.

The supplemental agreements stipulate that a) the Chinese SOE will invest €52 million as stated in the medium-term plan, b) the Chinese SOE provides €2 million for R&D annually for the following five years, and c) if further investments are required the Chinese SOE will accompany those in a constructive manner. These stipulations were maintained. The Chinese SOEs has invested in a new plant with new machinery and money for R&D activities have been provided.

The Chinese SOE also signed a letter of comfort to confirm that the Chinese parent company accepts the patronage of the Chinese subsidiary in Germany and with it the Chinese headquarters assumes all obligations of the Chinese subsidiary in Germany. This encompasses the fact that the Chinese parent company has to ensure that the financial capacity of AutoCo meets all the obligations which were entered into the ‘best owner’ agreement. In addition, the German works council demanded a profit and loss transfer agreement which ensures that regardless of whether AutoCo attains a loss or profit at the end of a year, the Chinese owner is financially responsible for the result. That means if AutoCo loses and reaches a deficit the Chinese owner has to balance out the deficit. With such an agreement, AutoCo’s works council addressed the opposition of the employees towards the sale to a Chinese company and aim to guarantee as much security as possible with the ‘best owner’ agreement, supplemental agreements, and the letter of comfort.

At present, there is a lot of friction in the relationship between the works council and the current German management. AutoCo’s works council leader reports that the German management tries to create distrust between the local workforce and the
works council. Examples mentioned by the works council leader are that the current
general manager of AutoCo misinformed employees about the intentions of the
Chinese parent company during an employee meeting, puts the blame on the works
council if somethings goes wrong; and explains to one of the employees that his
promotion was blocked by the works council members and not by the German
manager. One possible reason for the German management to play such games, is that
the works council leader enjoys a high level of popularity and trust among AutoCo’s
workforce. These micro-political games by the German manager create distrust and
insecurity among the local workforce. These games damage the trustworthiness of the
German manager and the Chinese owner rather than the image of the works council
members. This disunited front between AutoCo’s works council and management is
a weakness of AutoCo which could be exploited by the Chinese headquarters.

The Chinese headquarters has not built a close working relationship with AutoCo’s
works council. Nevertheless, the Chinese expatriate located at AutoCo referred to the
works council leader as “a very powerful man in this company.” AutoCo’s works
council leader also noticed that he himself enjoys a certain degree of respect from the
Chinese expatriates. The works council leader requests meetings with the Chinese
manager to be updated and he reports that he always receives an appointment. The
passive strategy by the Chinese parent company toward AutoCo’s works council may
perhaps change in the future. After the fieldwork, a new Chinese manager will lead
AutoCo. He has already requested a meeting with the works council and stated his
interest to collaborate. The works council seems open to build a closer relationship
with the Chinese management. The relationship between AutoCo’s works council and
the management team might change after the Chinese management has taken up the
CEO position.
HeavyCo’s works council

In contrast to AutoCo, the management of the former parent company of HeavyCo sternly supported the works council. Together with its works council, HeavyCo’s management prepared a transition agreement including a ‘best owner’ agreement for the Chinese investor which is similar to the one of AutoCo. It focuses on:

1. Defining a spatial division between HeavyCo and its former parent company and sister subsidiaries and stating that they have until the end of 2015 for a new factory has to be built for HeavyCo.
2. All employees can choose whether to transit to HeavyCo. If human resources are needed, employees of the former parent company can be lent out.
3. The company will hire for the R&D units several employees from the old parent company.
4. HeavyCo will become a member of the employer association. The collective and company level agreements of the former parent company will continue.
5. A former sister subsidiary operates the apprenticeship system and dual study programme for HeavyCo.
6. HeavyCo will hire five employees from the HR department of the former German parent company to cover the management of the HR department, operative HR management, and personnel development.

An additional stipulation for the sale was that 80 percent of HeavyCo’s employees had to agree to stay with HeavyCo after it changed ownership. The management argued that the reason for this stipulation is that the knowledge and success of HeavyCo is embedded in its employees. All employees were therefore able to choose to transit to HeavyCo. The agreement further specifies that an HR talent and HR expatriate manager will be hired after the carve-out and the former parent company will continue to be responsible to manage the payroll accounting of HeavyCo. In 2016, the payroll accounting function was separated from the old parent company and
integrated to HeavyCo due to a disagreement about some of HeavyCo’s accounting statements. Although HeavyCo was carved out, it remains closely connected to its former German parent company via the apprenticeship, training, and development programme. Furthermore, the Chinese owner maintains a close relationship with the former German parent company.

The relationship between the German management team and HeavyCo’s works council remains collaborative. During the course of the restructuring programme, the German management and employee representatives aim to increase the efficiency of the company to decrease the work load of the remaining employees after the dismissal. HeavyCo’s works council is convinced that this is of great importance after the dismissal of more than 300 employees. The employees experienced more pressure because they delivered the same output but with fewer people. One example where the works council and management worked together to increase the efficiency is the authorisation process of holiday requests. To simplify the process of signing off a holiday request the number of people having to authorise the holiday requests was reduced from more than five different individuals to only two individuals. Both the German management team and the works council agree that they collaborate most of the time.

Sometimes, HeavyCo’s management team and the works council also work together to resist changes initiated by the Chinese owner. For instance, they opposed the request of the Chinese owner to pay HeavyCo’s sales team according to its performance. Together the German manager and works council member developed several points (e.g. German employment relation system, collective agreements, the structure of the company) to convince the Chinese managers why HeavyCo should not introduce a performance-based salary system. While the three parties (the German
management team, works council, and the Chinese owner) usually collaborate, there are instances (as illustrated above) where the works council join forces with the German management and oppose certain influences by the Chinese headquarters.

After the acquisition, the Chinese parent company has actively sought direct contact and a good relationship with the works council employees which is also in contrast to AutoCo, where the works council always has to be the one to contact the Chinese headquarters. HeavyCo’s works council leader also noticed that he enjoys a certain degree of respect from the Chinese expatriates himself. This positive perception of the German works council by the Chinese investors can be used by HeavyCo’s works council and management to influence the Chinese owner. HeavyCo’s management understood this and took advantage of this by choosing to include the works council in the supervisory board. Their German CEO evaluates: "The works council has an important meaning simply because peace is regarded high and as sacred (by the Chinese)." These developments are not commonplace and the works council team considers their relationship to be quite exceptional in comparison to other German subsidiaries owned by Chinese companies.

The Chinese manager has difficulties to comprehend that the works council is not part of the management team and that giving warnings are not contradictory to a harmonious relationship between management and works council but part of the game. One reason is the different role between employee representatives in China and Germany.

The German CEO commented: “We had to clarify that we [the management and works council] are two organisations in one company namely the company and the works council which both try to solve the company’s problems but in the first instance
not together. In China, this is different, because they [the employee representatives] are part of the management.”

In China, employee representatives are usually part of the management, support the management, and are a tool of the Chinese government. If, for instance, HeavyCo’s works council begins with threats, the Chinese manager do not understand what this means and why they do this. Therefore, the works council has to consider the Chinese owner in their responses. If necessary, they will need to explain the role of the works council again and the meaning and implication of its actions. This often leads the works council leader and HR manager explaining the German employment relations system several times to some of the Chinese expatriates. Both recall that the Chinese expatriates had many difficulties fully comprehending the German industrial relations system. The Chinese expatriates thus do not have a complete understanding of the role of HeavyCo’s works council.

Overall, HeavyCo’s works council has a collaborative relationship with the Chinese and German management. Together they work on topics which appear to be of interest for both the management and the workforce. For example, the Chinese HQ has invited the works council to China every other year, and the representatives of Chinese trade unions visited HeavyCo’s works council at the German factory. The last trip of HeavyCo’s works council to China took place to address the German apprenticeship systems. The previous business trips of HeavyCo’s works council to China focused on different themes, including getting to know the Chinese factories and working culture and exchanging expertise on occupational safety and health protection. Bian and Emons (2017) observe in their report on Chinese companies in Germany, that Chinese managements usually do not contact the works council in their German
subsidiaries. Such a regular exchange between German employee representatives and the Chinese management seems to be exceptional for Chinese owners in Germany.

_CarCo’s works council_

CarCo’s works council is not as actively involved in the managerial processes compared to HeavyCo and CarCo. There was no ‘best owner’ agreement reached between CarCo and its Chinese parent company. The reason for this could lie in the fact that the company has an American tradition and that the former American parent company tried to minimize the influence of CarCo’s works council as much as possible. When an interview with the works council was requested via the gatekeeper at CarCo, the works council did not agree to an interview. The interviewees from CarCo’s management generally did not speak positively about the works council. CarCo’s works council is especially active in the apprenticeship training of CarCo’s trainees. Therefore, CarCo’s works council activities seem to be restricted to its legal responsibilities.

In general, it was observed that CarCo’s employees were initially hesitant about the sale. The PR manager at CarCo mentioned that they had encountered Chinese businesses prior to the acquisition and had negative stereotypes. For instance, when she met Chinese competitors during trade shows, she was surprised and annoyed by the fact that some of them took pictures of everything or dissembled the products. That was alien to her. Similarly, the HR manager mentioned his observations of Chinese tourists taking pictures of everything.

The HR manager II of CarCo thinks: “If you do not deal with the Chinese, you constantly hear from politicians that the Chinese swamp the market and that they acquire many companies and are replacing us. It would be too snooty to make a
judgement about this. It might be valid. Maybe they want to rule the word but their first step here is positive.”

The former parent company aimed to communicate clearly with its employees about the selling of the unit to the Chinese company. CarCo’s work council was involved in the selling process and therefore could exert little influence of the carve-out process. Employees’ concerns about the sale were thus mainly addressed by the management and less by the works council.

Discussion

The three studied cases of Chinese acquisitions in Germany present three different relationships between the German works councils and the respective Chinese owners. While CarCo’s works council has not played an active role during the carving out process of CarCo, AutoCo’s and HeavyCo’s works council have both reached agreements with the respective Chinese buyer to ensure location and employment security. Although both companies have similar ‘best owner’ agreements the two works council have accomplished those in very different ways. While AutoCo’s works council acted against the wishes of the management team to reach a ‘best owner’ agreement with the Chinese buyer, HeavyCo’s works council and German management team collaborated to sign a ‘best owner’ agreement with their Chinese acquirer.

AutoCo and HeavyCo’s works councils used several circumstances to their advantage to reach a ‘best owner’ agreement to safeguard the German location and employment contracts for five years. The first aspect is that AutoCo’s and HeavyCo’s works council where aware of the Chinese enterprises’ motivation to invest in the German company. In both cases, AutoCo’s and HeavyCo’s Chinese parent company had no
access to the premium customers in the European market before the acquisitions. The members of both works councils were aware that the acquisition would be a fast route for the respective Chinese SOEs, not only to enter the German and European market, but also to access an established customer network of the German subsidiaries. Besides, the acquisitions of AutoCo and HeavyCo offered the opportunity for the Chinese enterprises to circumvent trade barriers, grow bigger quickly, and save costs in comparison to entering the German market through a Chinese greenfield subsidiary in Germany with very few existing customer connections in the European market. These aspects mainly address the market level and also the organisational level context and these were used by both works councils of AutoCo and HeavyCo to validate a ‘best owner’ agreement and to avoid being sold cheaply.

A second factor for the acquisition of both AutoCo and HeavyCo is their state-of-the-art technology and technological expertise. The Chinese investors of both AutoCo and HeavyCo aimed not only for market access but also for access to AutoCo’s and HeavyCo’s technological knowledge as the German subsidiaries are specialised and employ a well-trained workforce in comparison to the Chinese company. This contextual element addressed the institutional level and the organisational level context. In comparison to the Chinese market, German employees tend to be well trained and highly qualified in the manufacturing sector due to the German apprenticeship system. AutoCo and HeavyCo operate such an apprenticeship system and are specialised in their field. The specialisation and expertise are factors through which AutoCo’s and HeavyCo’s organisational actors were able to reach special conditions for the sale to the Chinese buyers. AutoCo was able to convince the Chinese buyer to sign two supplemental agreements and the letter of comfort and
HeavyCo added the condition that 80 percent of HeavyCo’s workforce has to join the Chinese acquisition in the ‘best owner’ agreement.

A third element mentioned in chapter four is the scepticism of the German media, government, and public against Chinese investments in Germany. In all three acquisitions, it became clear during the interviews that the employees were initially very sceptical and hesitant about the Chinese investors. AutoCo’s and HeavyCo’s works council used the scepticism of the workforce to convince their respective Chinese investors to not only commit to a long-term agreement of minimum five years but also to invest substantial amounts in the German locations. HeavyCo, especially, took advantage of the scepticism of its workforce. The acquisition contract stipulated that only if 80 percent or more of the workforce agreed to be employed by the Chinese SOE, the acquisition would go through. With this stipulation, the Chinese investor had to engage in mitigation towards employees’ scepticism and emphasise its commitment to the location and secure employment. Although the workers’ concerns were addressed by AutoCo’s and HeavyCo’s works council through the works council newsletter, employee magazine, and meetings, some employees remain doubtful of the Chinese owners.

For instance, an interviewed engineer at HeavyCo remains mistrustful: “This location only makes sense as long as the Chinese want the know-how. If that is the case, then the question is to what extent development and production are justified at this location.”

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1 During the interviews a difference between the interviewees of greenfield and brownfield was noticed. Typically, employees in the brownfields reported that they were initially sceptical or suspicious of the Chinese investors.
Interviewees of CarCo report similar negative images of China but the works council was not able to act on those. Although similar agreements are not common with overseas investors in Germany, long-term agreements between German trade unions and employers are not uncommon. During the collective bargaining process, German employers can agree to long-term employment protection of the workforce. An example is Audi who agreed to an employment pact in 2006 which prohibits dismissals of its German workforce for operational reasons until 2011 (Jürgens and Krzywdzinski 2006). Both AutoCo and HeavyCo used the negative image of China, the country of origin of the respective investors, to justify their tough strategy with the Chinese buyers.

To conclude, the three larger subsidiaries, AutoCo, HeavyCo, and CarCo, have all elected members to their respective works councils and the three smaller greenfields, MedCo, EnCo, and InnoCo, have not chosen to elect employee representatives. The agency of AutoCo’s, HeavyCo’s, and CarCo’s works council vary. While CarCo’s works council was not involved in the carving out process, both AutoCo’s and HeavyCo’s works council have accompanied the selling process of their respective unit and signed a ‘best owner’ agreement with their Chinese buyer. The works council of AutoCo and the management and works council of HeavyCo used the market, organisational, and institutional context to come to an agreement with the Chinese investors. Both ‘best owner’ agreements address issues of guaranteeing location and employment of the German units, staying a member in the German employer association, maintaining the collective agreements, accepting the works councils, promising investments in the location and their R&D activities of the German subsidiary for five years after the acquisition and continuing the vocational training at the German factories. While AutoCo’s works council accomplished the agreements
with the Chinese buyer without the support of the German management team, HeavyCo’s management team proactively supported the works council to come to an agreement with the Chinese investor.

The following section focuses on the human resource management practices of the Chinese acquisitions and greenfield cases of this study in Germany. The different HR practices are discussed in the following order: first the recruitment and selection practices, second the training and development practices, and third the pay and performance practices.

6.4 Recruitment and Selection

This section focuses on the recruitment and selection practices. First the Chinese and German context is briefly summarised from chapter four and then the practices of the case companies and the Chinese influence is assessed.

A distinct feature between the German and Chinese context is that German firms tend to envision labour as a rather fixed factor in the production process whereby retaining talent is of vital importance (Hassel 2014). This long-term perspective of labour is reflected in the fact that Germany has the lowest employee turnover rate (5.3%) among the European countries (Festing 2012). This is in stark contrast with China, where turnover rates of employees can be high, for example turnover rates range from 20% to 70% in the manufacturing sector in China (Elfstrom and Kuruvilla 2014). The difference in the turnover rate between Germany and China is significant and thus is important to consider when analysing the HR practices.

To attract candidates, German enterprises typically pursue an active employer branding strategy whilst smaller companies tend to apply at least one of the employer branding practices, such as stating publicly their own mission publicly or being active
on social media (Kabst et al. 2009). The selection processes typically consist of the preselection of resumes, motivation letters, and semi-structured or unstructured interviews. Some larger firms also have an assessment centre which includes written and group tests but this is not common in Germany. Formal selection methods, such as psychological tests or written tests on competencies tend to not be used very often (Giardini et al. 2005; Kabst et al. 2009). One reason is that through the vocational training and dual study programmes, trainees often have a standardised qualification which makes the analysis of skills less important during the selection process (Festing 2012). While the Chinese system does not have such an established apprenticeship system and dual study programmes, the recruitment and selection practices vary greatly on company’s region and ownership type.

Companies from both countries rely, however, not only on formal practices, but also personal networks. They play an important part in the recruitment and selection process in Germany as well as China (Benton et al. 2014; Marsden and Gorman 2001). In Germany, it is observed that personal connections matter for both individuals seeking jobs (Granovetter 1995) and employers looking to hire new workers (Fernandez et al. 2000; Marsden and Gorman 2001). Similarly, in China, personal networks, labelled as guanxi, can influence the recruitment and selection of candidates. German companies tend to follow a simpler selection process and rely on personal networks to recruit candidates, whereas Chinese companies vary in their recruitment and selection practices.

All six cases of this study have a similar recruitment and selection process, consisting of publishing online vacancies, selecting candidates on the basis of their resume, CV, transcripts, and often references from the previous employers. These are discussed in
more detail in the following section; first the acquisition and then the greenfields are considered.

**Acquisitions**

With regard to the recruitment and selection practices, AutoCo, CarCo, and HeavyCo first plan their demand for personnel for each department annually. AutoCo and HeavyCo have not grown since the acquisition and therefore vacant positions are less frequent. Second, the vacant positions are first preferred to be recruited internally. CarCo, on the other hand, experiences a strong growth and therefore currently mainly targets new employees from outside the company. Third, if the vacancies cannot be filled internally and candidates have to be recruited externally, a typical process is to post the vacancy in the relevant online job portals and on the company webpage and spread the word in the respective personal and professional networks. In addition, AutoCo's HR management uses a service to post their vacancies online. In this way, the company can place its vacancies in more job portals and can reach a greater number of potential candidates. CarCo also sometimes uses the services of the recruitment agencies to recruit managers. Fourth, after selecting the applications through their CV, letter of motivation and former employers, usually, the responsible manager or team leader, together with one of the HR recruiters, conduct two rounds of semi-structured interviews with potential candidates and select a preferred candidate. In all three companies, the works council have to approve the selection decisions of the HR department which is often a technicality. The Chinese parent company have not exercised an influence on AutoCo, HeavyCo, and CarCo's recruitment and selection process.
Greenfields

The recruitment and selection practices and processes concerning the local workforce in MedCo, InnoCo, and EnCo are similar to the one of the above discussed brownfield cases. The three greenfields approach the HR task field differently. While MedCo has a more improvised approach to HRM practices and tasks, InnoCo’ HR tasks are mainly managed from the Chinese headquarters, and EnCo is in the process of building a new HRM system fitting to the German system.

MedCo’s approach to the selection process is pragmatic and less formal compared to the three greenfield cases. There is no clear annual planning for MedCo’s personnel but a practical step by step approach in terms of recruiting new employees. After MedCo’s HQ agrees to the filling of a new position, vacancies are placed online and in local newspapers. A handful of candidates are usually invited for one or two rounds of interviews depending on the candidates’ fit. The German deputy manager usually interviews the candidates and, if available, the Chinese general manager joins the meeting. If a candidate is an exceptional good fit, the German deputy manager has also made a decision after the first interview round. After the interviews, the German deputy manager discusses his observations and preferences with the Chinese general manager (if he was not present at the interview) and together they make a decision. Since the Chinese general manager has transferred more of MedCo’s responsibilities to his German deputy manager, the German deputy manager is mainly responsible for the recruitment and selection process. With the help of his personal and professional network the MedCo’s deputy manager has developed MedCo’s recruitment and selection process, from drafting a vacancy post to the employee contracts. This is a rather improvised approach to the HR activities.
InnoCo is exceptional in comparison to the other subsidiaries of this case study. Although its recruitment and selection practices are similar to that of the other case subsidiaries, the Chinese headquarters of InnoCo has standardised the recruitment and selection practices and tried to manage the selection processes as much as possible from China. The common recruitment and selection process of InnoCo is that the vacancies are published online by InnoCo’s general manager. Then the Chinese general manager conducts the first round of interviews and after that he selects the candidates to be invited for a second interview. At this point, the HR team of the Chinese headquarters takes over and conducts a second interview which is standardised and in English. Together InnoCo’s HQ and general manager make a final decision on the selection process.

There are four noteworthy observations. First, the selection processes of the interviewed employees of InnoCo varies. The standardised recruitment and selection processes are not always followed by InnoCo’s general manager who simply leaves out a few steps. For example, one of InnoCo’s employees received a job offer after the first interview. He was rather surprised by this offer because after the first interview, the general manager did not seem to have stated clearly that he wanted to hire him, and he was not expecting an offer at all. In another instance, one of InnoCo’s interviewees was recruited informally. He came into contact through his personal network with the general manager of InnoCo’s sister subsidiary in the US. There he was interviewed for the position at InnoCo. Yet another employee first received a rejection after the second interview with the Chinese headquarters, only to be offered an internship after another meeting with the Chinese general manager. In fact, half of the employees first started out with an internship contract. The internship seems to function as an extended selection processes, a trial period, to test the candidates. The
actual recruitment and selection process seem to be very formal and standardised but are often altered to the context or the needs of InnoCo.

There are other deviations from these formal processes. The first unusual observation is that some vacancies of InnoCo are permanently online although InnoCo has no open positions. InnoCo's Chinese manager posts vacancies online in order to build up a pool of potential candidates. The subsidiary has a high turnover rate of more than 30 percent which is nearly six times higher than the German average. The general manager argues that he prepares InnoCo in case one of InnoCo’s employees resigns. This practice has an adverse effect on some employees. Some of InnoCo’s employees were not aware of these permanent online vacancies. After one interviewee became aware of it, she reported that she become insecure of how much her work was valued by InnoCo’s general manager and she questioned how secure her position actually was at InnoCo. She resigned later for a position with a permanent contract. InnoCo has thus a high turnover rate which the general manager tires to pre-empt by posting online vacancies permanently to build a pool of interested candidates.

The general manager mentioned that he has difficulties finding appropriate candidates. InnoCo aims for Mandarin speaking employees as the internal reporting system and all communications with the Chinese headquarters is in Mandarin. As the Chinese headquarters leaves little autonomy to InnoCo, Mandarin skills are necessary to the majority of InnoCo’s employees. The tight management of the Chinese headquarters restricts the pool of suitable candidates for InnoCo in Germany. Due to the Mandarin language skills requirement, the local labour market, and the high fluctuation at InnoCo, the general manager argues it is necessary to maintain a pool of potential candidates if one of the current employees resigns.
A second observation is that the influence of *guanxi* affects the recruitment and selection process of both InnoCo’s Chinese expatriates and local employees. One example is InnoCo’s previous general manager, a Chinese expatriate, who seems to be positioned at InnoCo through his personal connections, rose to the top management of InnoCo’s parent company.

The senior business developer interprets the situation as follows: “*He (the previous manager) was an absolute disaster. Only pomposity. He did not have a single skill that a manager should have. No structure, no planning, no experience. He was politically placed. He knows someone high up in the [Chinese] HQ. (...) For them [the Chinese] it is important to place somebody out of their personal environment at the company. But this guy is a total disaster, and he can really destroy things [at InnoCo]. Technically, I did more or less his job. And that was a huge problem. Because on the one hand I help him to be successful and on the other hand I help him to stay in his position. The HQ does not even notice his inability. (...) I did not want to continue to support this anymore. I was forced to continue his work until someone from HQ came [to visit InnoCo]. I waited to find out if we can talk to that person. That was the case, but we did not have to talk much as they realised that he simply had no idea [of his job]. I explained if this continues, I will give my notice. We did not have to do much. (...) But [after their visit] they were undecided. They have been battling with themselves for a long time. Because his political contact in China has, of course, tried to prevent his leave. Because then it would be publicly known that someone has positioned him there [at InnoCo] who was ill-fitted. (...) That [the recruitment of InnoCo’s former general manager] was very political. Then came the new one.*”

Another example is that one of InnoCo’s employees is convinced that she received the offer because her husband knows InnoCo’s general manager.
She describes the recruitment process as follows: “After the interview, I did not hear anything for two to three months [from InnoCo], and then the manager contacted me if I would be available for trial period to work for them. Then in December, I spent a month working for them without a contract. I was not working full time, that would be illegal, but sometimes here and there for a few hours. This process was very opaque. It was very corrosive. This back and forth. I do not know who the person in China is, with whom I talked on the phone and why it was like this. This communication was not very transparent and sometimes the communication [during the selection process] went via my husband.”

These two examples show that guanxi influences the recruitment not only of Chinese expatriates but also of local employees at InnoCo. Guanxi not only influences who is recruited for the selection process, but who is selected for a position at InnoCo.

A third observation is that the general manager employed candidates with HR and recruitment experience but he is not utilising the expertise of his team in the HR area. One employee mentioned that it is difficult for him to take up more HR responsibilities and to suggest new ideas or practices in the HR area. This employee mentioned: “I do not understand why he does not accept my help. I have had recruiting work experience in China and general HR work experience in Germany. I could help him target more Mandarin students or alumni from Mandarin study programme.” The Chinese manager and InnoCo’s headquarters have not only centralised the decision-making with regard to the recruitment and selection process but in general it is very difficult for InnoCo’s employees to suggest new ideas or request something.

EnCo's recruitment and selection processes are similar to the other companies. EnCo’s HR manager has built new recruitment and selection processes because the Chinese parent company’s practices do not fit the German context. One of EnCo’s employee
commented on the differences between the parent company and EnCo saying: "Their (the parent company’s) HR system is different. Some employees work for the party. The recruiting is state regulated (...).” The current recruitment and selection processes are: after the annual planning, vacancies to recruit local employees are posted online. In addition, the HR manager also attends career fairs to represent EnCo. EnCo is the only case company where the current focus of the HR manager is to develop an employer brand for the German and European labour market. The HR manager intends for EnCo to become recognised by potential candidates as a brand in the German and European labour market. To gain more exposure, she developed a new German webpage and attended recruitment events to attract young talents. The HR manager stated that a reasonable percentage of applications comes through recommendations by Chinese employees. Thus, the personal network (guanxi) of the Chinese employees also influences EnCo’s recruitment process. This is similar to InnoCo. If a suitable candidate is not found, EnCo uses a headhunter. An example is the recruitment of the current HR manager himself. But this is an unusual practice for EnCo. The selection process usually consists of selecting fitting candidates from their application for an interview. Typically, the respective team leader and one team member conduct the first round of interviews, and EnCo’s HR manager, general manager, and the respective team leader conduct a second interview with the finalists. EnCo’s HR manager has thus integrated the common German recruitment and selection processes with the Chinese guanxi practice.

Although the Chinese headquarters gave EnCo’s HR manager access to their tools, HR practices and policies, she did not adopt any of them. Instead, new tools, policies and practices are developed. For instance, the HR manager has built a new database for employees and candidates because the one from the Chinese HQ does not fulfil
the German privacy and security standards. The database of the Chinese headquarters requests personal information, such as information about the family which are illegal practices in the German context. In addition, the general security standards of the parent company’s database do not fulfill the security standards required by the German law. EnCo’s HR manager thus considers the recruitment and selection process of EnCo’s parent company as incompatible in the German context.

There was a Chinese influence also noticeable through *guanxi* which has affected the recruitment of EnCo. An employee mentioned that the field of potential employees is small and that most researchers know each other. That networking influences EnCo’s recruitment process is therefore not a surprise as EnCo’s employees know who in the field has the required skills, necessary capabilities, and fits into their team. EnCo’s Chinese employees, however, referred most of the successful candidates to the company, EnCo’s HR manager reflects. Therefore, there is a Chinese influence noticeable at the recruitment level at EnCo and also visible when visiting EnCo’s office.

**Discussion**

The recruitment and selection processes are fairly similar across the case subsidiaries of this study in general and the acquisitions in particular. AutoCo, HeavyCo, and CarCo have kept and MedCo and EnCo have developed typical German recruitment and selection practices and policies. The Chinese buyers have all agreed to remain as members of the German employer associations. This and the acknowledgments of the respective works councils have led to little change in the recruitment and selection process. Due to the German code of industrial relations, AutoCo, HeavyCo, and CarCo’s works council have to give their consent to the recruitment of new employees
in order for the company to be able to employ the preferred candidate. As the Chinese buyers are members of the German employer associations and thus the German code of industrial relations has to be kept, this policy has continued in all three acquisitions of this study. The German institutional context remains thus significant in the context of the recruitment and selection process in these three acquisitions of this study.

Besides, MedCo and EnCo have adopted recruitment and selection practices typical for the German context. The main reason for the adoption of the local practices is that both companies have no standardised HR practices for their overseas subsidiaries and have employed a German manager who is responsible for the HR aspects. MedCo has a more pragmatic and informal approach. MedCo experienced no forward diffusion of recruitment and selection practices and policies and has no guidelines from the Chinese headquarters. MedCo, being a small company, has a more practical and informal approach to its recruitment and selection process which is not uncommon for small companies in Germany (Koch and McGrath 1996). EnCo even used the German context to resist any diffusion attempts of recruitment and selection practices and policies from the headquarters by referencing the German laws and security standards.

There was a Chinese influence also noticeable through guanxi which has had an effect on the recruitment process of EnCo and the recruitment and selection process at InnoCo. The HR manager of EnCo mentioned that a group of researchers was recruited via the network of their existing employees. The influence of guanxi is possible because of the high presence of Chinese expatriates at EnCo and the strong hierarchical decision-making process at InnoCo. In general, about half of InnoCo’s employees were recruited via personal connections to the Chinese parent company or the current general manager. The former general manager at InnoCo was politically placed via his Chinese network. The local employees used their local knowledge and
their importance to the company to oppose the selection of a Chinese expatriate who through his connection rather than his performance was selected for this job. The employees of InnoCo thus exerted pressure on the headquarters to remove the previous general manager from his position by pointing out his lack of skills and their own expertise. The headquarters was further pressured by the senior business developer, a key employee of InnoCo. He threatened to leave if the Chinese expatriate remained as general manager. The senior developer used his position and reputation as a local expert to force a decision from the headquarters.

Besides, the institutional influence organisational actors at CarCo also utilized the market level. CarCo has adopted and transferred ‘best practices’ for its HRM practices and policies. While CarCo’s headquarters initiated the standardisation process of its HRM practices and policies, the German and US regional headquarters have developed the standardised HRM practices. These are adapted, if necessary, to the German context due to the local laws and regulations.

To sum up, except for EnCo and InnoCo no forward diffusion of recruitment and selection practices has taken place in these six cases of this study. At EnCo, recruitment and selection practices were initially transferred but obstructed through the current HR manager. At InnoCo the transfer process of recruitment and selection processes has not been hindered but some individual decisions with regard to recruiting and selecting candidates are contested by InnoCo. At HeavyCo and CarCo a reverse transfer effect of recruitment and selection practices is observed to different degrees. While HeavyCo’s works council and HR management team explain the HR and ER system frequently to Chinese expatriates working at HeavyCo or to Chinese delegations of the parent company, CarCo’s HR team is part of the team developing standardised HR practices to be transferred across all regions (China, North America,
and Europe). The Chinese owners of the companies studied here have mainly adopted a localisation approach for the recruitment and selection of the local workforce, with the exception of InnoCo.

6.5 Pay and performance

Typically, the pay and performance practices as well as the policies are characterised by the collective or company-level agreements between employers, employer associations, and trade unions in German companies. The majority of the German workforce has its pay and compensation determined by the collective or company-level agreements. This leads to low wage differentials between employee groups, especially in the manufacturing sector. Compensations depend on the respective hierarchical level and the associated salary of an employee. Higher management is usually not covered by the collective agreements but by the company’s policies and individual negotiations. Financial participation and performance-related pay is less often applied in German companies compared to Chinese counterparts. Instead, profit-sharing schemes are more frequent among German companies (Festing 2012). This is in contrast with the current individualised pay system in China. While performances-based pay was absent during the ‘three irons system’, it was slowly introduced after the economic reforms in 1978 and was later widely adopted in state-owned and private-owned companies to determine not only the bonus but also the salary of employees (Han and Morishima 1992; Yuan 1990).

The three acquisitions are covered by collective agreements and pay salaries above the average in their respective sectors. Of the three greenfield cases of this study, EnCo grants salaries above the average whilst the other two greenfields, MedCo and
InnoCo, offer salaries below the average in their sectors and regions. The following section examines the pay and development practices in more detail.

**Acquisitions**

Regarding pay and performance practices, HeavyCo, AutoCo, and CarCo are all members of the employer associations and have negotiated firm-level agreements next to the existing collective agreements. All three companies award their workers with a salary above the one of the sector-level collective agreements. The reason for this is that all three subsidiaries were previously part of large corporations which have traditionally paid wages above the sectoral collective agreements in Germany. Additionally, AutoCo's and HeavyCo's employees receive an annual variable bonus which is based on the company's cash flow, annual turnover, and employee’s position. CarCo is in the process of changing its annual bonus system. Previously, employees received shares of the former parent company from the US and at the time of the field work this was planned to change to annual variable bonus. The three acquisitions of this study have again similar practices which is due to their size and being subjective to the collective agreement in Germany.

While the German institutional influence is present, the Chinese owners have aimed to transfer performance-based pay systems to AutoCo and HeavyCo - although the HR departments of both AutoCo and HeavyCo operate independently. Both Chinese headquarters have repeatedly addressed the issues of performance-based salaries with AutoCo’s and HeavyCo’s general and HR managers, suggesting that they link individual and subsidiary performances to the monthly salary of the local employees.

The HR manager of AutoCo explains: “*Expectations are to adapt to the Chinese systematics in the sense of controlling the performance very quickly, very directly via*
payment, both via payment raises, grants, and bonuses as well as via payment deprivation. We do not even have this [payment reduction practice] in Germany. They want to track our monthly key figures of the individual performance and the subsidiary’s operations. If the performance was just not good, individual or unit wise, a high percentage of the salary should be cut. This is an issue where the shareholder still has little understanding [of the German context]. How can one distribute a bonus if we have a loss of profits? There is little understanding of our practices. Again and again, this expectation keeps coming up to steer the staff more via salary structure.”

The HR manager of AutoCo has successfully resisted any changes addressing pay and performance practices through several resources. First, the Chinese employer has difficulty introducing any pay changes because of the ‘best owner’ agreement which guarantees the employer association membership and thus it also acknowledges the collective agreements at sectoral and firm level. Second, the HR manager is knowledgeable of the local rules and regulations and he has used his expertise to oppose any HR related changes by the Chinese owner. He also does not share his knowledge with the Chinese headquarters. The Chinese owner being eager to acquire AutoCo, signed the ‘best owner’ agreement before the acquisition, and lacking knowledge of the legal aspects of the HRM work in Germany has impaired the parent company’s capacity to initiate pay-related changes successfully at AutoCo.

Similar to AutoCo, HeavyCo’s management and works council also oppose an introduction of performance-based pay in the sales department by referring to the ‘best owner’ agreement, the included commitment of the membership in the employer association, and acknowledgment of the existing collective agreements. HeavyCo’s local organisational actors argued against such performance-based pay because it is not a motivator for its sales team.
The works council leader explains: “We currently prevent this [performance-based and individual compensation practice] in the sales department. That [the interest in performance-based pay] is driven by the [Chinese] owner, because they have made good experiences in China and they like to introduce this in Germany, especially setting targets and target agreements for employees. They expect that this [performance-based practice] helps to boost [HeavyCo’] sales. We see this completely differently. The owner has pressured us for years, and we have resisted them for years.

We argue to look at this issue from a motivational perspective. We think that money is not a real motivator for sustainable performance. That’s a hygiene factor, the money has to be right, and then you can expect some benefits. Many of our sales employees (...) have an annual fixed income of over €100,000. This is unusual for sales employees. (...) Money is not a motivational factor for our sales team. That does not work. It's nice that you want to motivate people, but with more money, you will not reach the set goals any faster.”

Two other arguments are mentioned. First, the employees of the sales department are also covered by the firm-based agreements of HeavyCo, and thus a change focusing on performance-based payment would be in opposition to these collective agreements. Second, HeavyCo’s management argues that the sale of their products is a team effort. The sales team has to work with HeavyCo’s engineers and workers to manage the orders of products. The reason for this is that HeavyCo’s products are customised and not immediately available. The products are therefore not to be sold directly to customers. Instead application engineers, designers, and testers are all involved in manufacturing HeavyCo’s products to customise them to the needs of each customer. The German management argues that a performance-based payment among the sales team will lead to a distribution struggle among sales contracts and potentially to a
power struggle. Power dynamics within the sales team would change and such a development is seen by HeavyCo’s management as unlikely to benefit the company. In other words, because of the company’s structure and business model, a focus on individual performance-based payment system would not benefit the company and its customers. Noteworthy is that HeavyCo’s managers and works council do not only refer to the legal context to the Chinese expatriates in this context but instead explain the issue from different angels; including arguments for 1) why such performance-based payment is not beneficial for the sales team, 2) the company’s production and sales structure, and 3) the motivational aspects for the sales team.

The Chinese headquarters of CarCo, together with the German global HR manager, decided on a common global payroll structure. Previously, CarCo’s employees received shares of the former North American parent company. Now, employees of this joint venture receive a comparable annual bonus related to their position and region instead. To realise this project, a standard compensation software has been developed by the global payroll and compensation team in the three regional headquarters (China, North America, and Europe). The compensation manager of CarCo has led the global team (from China, North American, and Europe) which developed a standardised salary and bonus structure for all subsidiaries. The developed compensation software system was intended to be used after the fieldwork and it will be implemented first at CarCo, the European regional headquarters, and then successively at the North American and then at the Chinese regional headquarters. The software aims to standardise the payroll system and bonus payments across the regions. The approach to CarCo’s recruitment and selection practices, the strategy to standardise is determined by the supervisory board of
CarCo’s parent company. After that the regional headquarters develop the actual practices and policies.

**Greenfields**

At MedCo, the payroll structure was implemented by the Chinese headquarters after founding the company. During the fieldwork, MedCo’s salary structure was changed to adapt to the regional average. This change was initiated by MedCo’s German deputy manager. There is no formal employee performance evaluation at MedCo. Owing to the small size of the team, the deputy manager aims to give immediate feedback. MedCo’s deputy manager states: “If I notice something, discontent for example, I aim to address this instantly.” MedCo’s pay and performance practice has to be on the one hand adapted to local standards and on the other hand remain more informal.

The German deputy manager of MedCo successfully negotiated a pay raise for all of MedCo’s employees. The company has paid salaries below the average in comparison to other small companies in the region. MedCo’s deputy manager describes the negotiations as follows: “I argued with facts so that no heated discussion can develop. MedCo has to increase salaries to attract better qualified personnel. It was a ten-minute talk. There was no discussion.” He was able to successfully initiate the pay rise for four reasons.

First, in 2016 when the pay rise took place, the German manager was in charge of several crucial aspects of MedCo and its Chinese parent company, including the certification process for MedCo’s products in Germany. Therefore, MedCo's deputy manager is convinced that he has a relatively secure position within the company being almost indispensable for the Chinese parent company. His secure position and
the Chinese owner’s trust in him allowed him to be more direct in his requests with the Chinese owner.

Second, the manager of MedCo used the subsidiary role in the company as leverage. The subsidiary is the first foreign operation of MedCo’s parent company. The German subsidiary is regarded by the Chinese parent company as a global leader for the company’s global R&D activities. MedCo transfers not only technology and technological expertise to the Chinese factories but also management practices to its Chinese headquarters. More precisely, the German manager consults the Chinese parent company and has initiated some developments in the parent company. An example is that he advised the Chinese parent company to change to a certification authority with higher standards in China because the higher certification standards are important to customers in the field. The products of the Chinese parent company have become more attractive for international and local customers due to the certification change, and it has also become easier to export the Chinese products to European countries as these countries generally require more documentation for this kind of products in comparison to local Chinese guidelines. For this, the documentation process had to be changed at the Chinese parent company and at MedCo. MedCo’s deputy manager knows that he facilitated a positive change for the parent company and therefore he felt confident to ask for a salary increase on behalf of MedCo’s employees.

Third, the German manager has assumed new responsibilities supporting the Chinese parent company. He gained the trust of the Chinese owners. This was evident in that the Chinese manager widened his areas of responsibilities in the German subsidiary. Among other things, he has become the face of MedCo, managing MedCo and the company’s expansion to Korea for the Chinese parent company as well as consulting
the Chinese headquarters. Additionally, he has acted as the intermediary between the Chinese parent company and its primary customers in Germany. He helped the German customer to understand the local situation of the Chinese factory and how specific documentation requirements for the quality control cannot be delivered from the Chinese headquarters. The German deputy manager thus has not only become indispensable, but he has also gained the trust of the Chinese owner.

Fourth, the German manager used his local knowledge of the labour market in his argumentation. He mentioned that, prior to the negotiations, he asked business partners and other HR managers of MedCo’s suppliers about their wage scale system. In this case, the German manager used his knowledge of the local labour market to request an increase in wages, knowing it would likely be approved.

To sum up MedCo’s case, the German deputy general manager was able to initiate a salary increase by using his unique expertise within the company, MedCo’s unique position within the Chinese parent company, the trust he has gained through his work, and his knowledge of the local employment market. The deputy manager argued that for the tasks MedCo is undertaking for the Chinese parent company, he requires more qualified and competent colleagues who he can only recruit by offering a fairer salary. With the pay increase he therefore aims for MedCo to become more attractive to potential employees. In comparison to AutoCo and HeavyCo, MedCo works collaboratively with its Chinese parent company and actively helps to professionalise and support the work of the Chinese parent company.

InnoCo deviates from the other case studies, with its minimal employees' benefits. Although the parent company pays InnoCo's employees more than the minimum wage, the salary is comparatively low to other smaller companies in the sector and region. The company does pay a generous annual bonus, however which is uncommon
for the regional and sectoral context. The high bonus was mentioned by two interviewees of InnoCo to have been an interesting advantage which allured them to join the company. InnoCo's employees have only the statutory holiday entitlements of 20 days which is highly uncommon in Germany in that sector. Most interviewed employees of InnoCo were really surprised by this and checked the German law whether this is legal or not. It is indeed common for German companies to offer 25 holidays and smaller companies in the industry tend to offer between 24 and 28 vacation days in Germany. InnoCo offers therefore a below the average salary and holiday package to its employees with the exception of an unusual annual bonus.

Regarding pay and performance practices at EnCo, the company offer salaries to its employees which are above the average in the region and sector. EnCo commissioned a consultancy to gain an overview of the salary range in their sector for all Western European countries. With the help of consultants, they developed a salary structure which is the average of the results from the consultancy's study. EnCo has not transferred its salary structure to Europe but adapted a European average. The Chinese company therefore offers salaries above the average for the region and sector. EnCo also pays a variable bonus which depends on the subsidiary, team, and individual performance. The offered holiday days are typical with 25 days, but the HR manager mentioned that she has to remind the Chinese employees to actually take their holidays. In addition, the HR manager also prepared a lunch voucher scheme for EnCo's employees. It has to be formally approved by the Chinese headquarters. EnCo thus offers a salary package which is adapted to the European average and not to the local salary in order to attract local and European candidates. The company is in the process of adding others benefits, such as lunch and sports vouchers, to become an even more attractive employer to German and European engineers.
**Discussion**

To sum up, HeavyCo, CarCo, and AutoCo are all members of employer associations and thus covered by collective and firm-level agreements. While CarCo has to integrate the global guidelines with the collective agreements, a sort of hybridisation, AutoCo and HeavyCo have resisted the suggestion to integrate performance-based pay. AutoCo and HeavyCo’s management and works council oppose such suggestions by referring to their ‘best owner’ agreements with the Chinese investor, collective and firm-level agreements, the German law, and the company’s organisation.

Furthermore, InnoCo and MedCo pay salaries below the sectoral average which can be explained by the home country effect. Chinese labour costs are usually lower compared to Germany. While InnoCo’s salary structure remains below the average, MedCo has introduced a pay rise during the fieldwork. MedCo’s deputy general manager used arguments, such as the situation of the local labour market, MedCo’s good performance, and his own personal importance to negotiate a pay increase successfully. Beside a low salary, InnoCo also grants fewer holidays to its employees than comparable companies in Germany. This can also be explained by a Chinese home country effect. The paid annual leave in China, regulated by ‘Regulation on paid annual leave of employees’ (ILO 2007), is five days when working for a company for over one year but under ten years. This increases to 15 days when working for more than 20 years for the same employer. EnCo has taken a different approach. To attract international talent to its German subsidiary the company offers a salary above the local average and an averaged European salary.

These practices are not applied to the Chinese expatriates whose contracts are with the Chinese parent company. The Chinese expatriates of AutoCo, HeavyCo, CarCo,
InnoCo, and EnCo often exceed their working hours, work during the weekends, and take fewer holidays compared to local employees. Although overtime is not peculiar in Germany, working during weekends and rarely taking vacation days is rare for German employees (Schnitzlein 2012). For some Chinese companies, it is common to have a six-day working week, including AutoCo, and HeavyCo, who still have a six-day working week in their Chinese subsidiaries. These work ethics have not been adopted by local employees of the German subsidiaries in this study. An exception is InnoCo. The office manager of InnoCo mentioned: “A colleague was expected to be present at the office for an online interview in China during a public holiday. She refused because it is an official holiday (in Germany). ... Also, there are sometimes conference calls at 4 am, because of the time difference between China and the US. The (Chinese) headquarters insists that we are present.” InnoCo’s parent company is the only one where such unusual requests for local employees were noticed by the researcher. As mentioned earlier, InnoCo’s employees have few power resources to resist such demands, except for the threat of or their actual resignation. In this case, this employee refused to attend the interview and resigned a few months later. The high fluctuation rate does increase the pressure on the Chinese general manager to change practices.

The six German acquisitions of this study can continue to follow their local pay and performance practices. In this way, the Chinese parent companies ensure to retain the local talents, employees, and their knowledge. MedCo and EnCo’s parent companies also adapt to local norms to attract (more) qualified candidates in order to learn from their German subsidiaries and in both cases to transfer knowledge and technology, too. While MedCo successfully does so, the degree of success remains unclear for EnCo. InnoCo, however, also aims to transfer knowledge but is until unsuccessful to
realise its ambition. One reason might be that InnoCo cannot attract the right talent because of its below average salary. The company also has a problem retaining its employees, resulting in an unusually high turnover rate at InnoCo for the German context.

6.6 Training and development

The German business system encourages companies to focus on the long-term career planning of their human resources and on the training of their workforce in order to have more skilled workers (so called Facharbeiter). German companies are thus generally focused on (re)training and developing their employees, highly committed to training schemes, and invest a high proportion in training. The Facharbeiter and with it the vocational system is considered the backbone of the German economic system (Festing 2012).

In the case of other more specialised training, Germany’s education system is divided into vocational training and higher education (Bernhard et al. 2013; Baethge 2006). It is particularly known for its vocational training which is a dual education programme combining practical training in the company with theoretical learning in designated schools. Vocational training programmes are a pillar of the partnership between business and labour. More recently, an upgraded version of the vocational training was introduced, the dual study programme which combines a vocational training certificate with a Bachelor's degree (Graf 2013). The German educational scheme is recognised as a major strength of German companies (Festing 2012). This system is governed jointly by employer's associations, trade unions, and the state. Germany’s vocational education system has given the country a competitive advantage in the manufacturing and high technology sector in the global market (Culpepper and
Finegold 1999). In contrast, China's vocational education training is mainly visited by migrant workers, varies in its quality, and does not enjoy a high reputation in China compared to Germany (Ling 2015). The following section examines the training and development practices of the six cases of this study. In addition, the section focuses on vocational training and dual study programmes of the acquisitions.

**Acquisitions**

With regard to training and development practices, AutoCo, HeavyCo, and CarCo follow their collective agreements which specify an annual personal and development interview and the right of training for its employees. Both AutoCo’s and HeavyCo’s HR departments have used the switch in ownership as an opportunity to professionalise their training and development system. Both HR departments have yet to implement these plans.

After the acquisition by the Chinese SOE, AutoCo developed an intensive performance review process which is used to reflect the training and development needs of each employee. Annual development meetings take place for each employee which are conducted by the respective foreman, team leader or manager. This programme is not realised due to a long-standing illness of the responsible HR employee. Moreover, interviewed employees at AutoCo mentioned that they did not have any training in the last year. The company is restricted due to its tight financial situation. While AutoCo’s management team has good intentions, the HR team cannot realise those due to AutoCo not being profitable since the acquisition.

HeavyCo recruited a new HR employee to focus on the training and development practices because the former training and development programme did not fit with the new size of the subsidiary, it now being now a medium-sized company. The former
training programme of the German parent company is too formal and bureaucratic for HeavyCo’s current size. Because of the market crash in their sector in 2013, HeavyCo did not roll out the newly developed training plan. The new programme is intended to be rolled out in the near future. Additionally, HeavyCo’s works council and HR department implemented changes in the annual performance interview programme because they argued the old one did not fit their medium-sized company. The interviewed employees did mention that they had no training at HeavyCo as yet. But some of the interviewees hoped to attend some training in the coming year and were confident that the company would enable this to happen. They attribute this positive outlook due to the improved financial performance of the company during the year that the fieldwork took place. Similar to AutoCo, the poor performance of HeavyCo also constrains the training possibilities of HeavyCo’s employees.

The employees of both AutoCo and HeavyCo typically follow armchair careers which is a straight-lined career. Both HR managers are aware that such careers lead to isolated thinking and try to disrupt this tradition where possible. They argue that due to the technical aspects of their production this is not often realised. The new training programmes are intended at both AutoCo and HeavyCo to combat such isolated thinking.

CarCo has a more professionalised training programme compared to AutoCo and HeavyCo. CarCo offers not only internal training but also external and online training programmes. For instance, CarCo has a company account for an online language programme, where, among other languages, Mandarin is offered. Employees are free to follow these online programmes and can sign up for the internal and external trainings. In addition, employees have development interviews every three months. The company also has a global mobility manager who looks after the company's
expatriates sent from Europe to the other regions. The subsidiary is the only one in this research project which offers to send its German employees to the Chinese headquarters and where German employees also engage in such an exchange. Currently, the German global HR president has been located at the headquarters in China for two years. CarCo training and development practices are thus professionalised and it is the only subsidiary where German employees are posted to China for medium to long periods of time.

In addition, HeavyCo and CarCo are engaged in dual study programmes. These programmes consist of paid positions during which students are engaged in practical, real work projects at the company and a study programme at a local university or higher education institute. The advantage for the students is that they qualify at the end of the programme with both a Bachelor’s degree and a vocational training degree. Also, HeavyCo and CarCo have built a close relationship with highly qualified talents who have been trained in their companies.

The training and development practices of AutoCo, HeavyCo, and CarCo are also a method to approach young talent. HeavyCo, AutoCo, and CarCo have all implemented an apprenticeship programme and other training programmes for young people. AutoCo recruits only a few apprentices, up to three apprentices annually, HeavyCo up to ten annually, and CarCo up to 25 annually. In addition, the three acquisitions also employ student trainees (*Werkstudent*⁴), who are recruited by the companies independently of their study programme and they work up to 20 hours weekly next to their study. Often these *Werstudenten* receive an offer to work for the

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⁴ *Werkstudent* (student trainees) contracts allow employers and students to pay no extra contributions to health, nursing, and unemployment insurance, regardless of the amount of income. Contributions to the pension insurance must, however, be made (§8 paragraph 1 Nr. 2 and § 115 social security statute book – the fourth book).
company after they complete their university degree. Further, HeavyCo and CarCo also recruit student trainees, students to write their thesis based on a company project, and students enrolled in a dual study programme. Writing the final dissertation in the company is common for both Bachelor’s and Master’s degrees, especially in the natural sciences, such as engineering and IT. Such a student project offers the companies and students the opportunity to get to know each other. These are approaches to attract young talent from universities and train them for the company.

**Greenfields**

MedCo has no formal training, and usually, the company does not offer trainings to its employees. An exception is the health and safety training which is legally required. In the beginning, the German deputy manager was responsible for the quality management of the products, and the German deputy manager is therefore also accountable for the health and safety training at MedCo. Also, MedCo has no formal development practices. Such an informal HR approach followed by MedCo is not unusual for small firms (Mayson and Barrett 2006) and thus it does not necessarily have a Chinese home country effect.

At InnoCo, training and development practices seem to be rare and informal. The interviewees at InnoCo gave mixed answers about the training and development practices and policies. InnoCo does not offer any training or development practices. Some interviewees reflected that they had no annual feedback. Others mentioned that they had scheduled a development and performance review after the probation period but that the general manager instead talked about the performance and future of InnoCo. Other interviewees had an informal performance review during business trips. The main influential factor is the Chinese general manager who seems to not
prioritise performance and development feedback as well as trainings although the Chinese headquarters expects regular performance and development review meetings.

EnCo’s training and development are not structured at the moment. The teams occasionally invite researchers to hold talks about their recent research projects. If individual employees or teams request a training and the team leader supports the request, employees have the opportunity to attend external training. To reflect on the individual development and performance, an annual performance review takes place between the team leader and his team members. Training and development practices and policies seem to be in the process of building up.

**Discussion**

At the training and development level, the Chinese acquisition cases studied here indicate a strong influence of the host country. The Chinese have so far not attempted to change this. On the contrary, HeavyCo’s works council was invited to China to explain its apprenticeship system. Moreover, Chinese expatriates at AutoCo, HeavyCo, and CarCo are highly interested in this training system. CarCo’s headquarters also appointed a German HR vice president for its international business to integrate the Western expertise into their headquarters. The three greenfields offer few training opportunities which can either indicate a home country influence or a lack of resources. They also do not have an apprenticeship system. MedCo and EnCo both indicated an interest to expand their training and development. InnoCo seems to have little interest to invest in training and development practices because of the currently high fluctuation of employees and CarCo’s manager seems to not prioritise this kind of formal performance feedback meetings with his employees.
6.7 Discussion and conclusion

This chapter analyses and compares the human resource management and employment relation practices of the six German subsidiaries of this study. The majority of these subsidiaries (AutoCo, HeavyCo, CarCo, MedCo, and EnCo) use local HRM practices. The three greenfields, the larger subsidiaries in this study, have all elected works councils to represent the local workforce of the respective subsidiaries. EnCo and InnoCo are the exceptions. While EnCo, similar to InnoCo, initially adopted the transferred practices of its Chinese headquarters, EnCo has changed its strategy from standardising practices to localising its HRM practices in Germany. InnoCo meanwhile has kept the standardised practices of its Chinese headquarters and these practices from its Chinese owner are rarely (openly) opposed at InnoCo. The main difference is the entry mode. Both EnCo and InnoCo are greenfield subsidiaries and the adoption of the home country practices is typical for greenfields.

This chapter shows that there is a clear host country effect. The study shows that only two of the Chinese parent companies tried to transfer the majority of their HRM practices to Germany. Five of the six cases have adopted a light-touch approach, in particular the acquisitions have kept their HR practices and policies. Most practices can hence be identified as typically German or ‘best practices’. AutoCo and HeavyCo’s HR manager, for example, do not report directly to their Chinese headquarters but only to the respective general manager of the subsidiary. CarCo and EnCo’s HR manager communicate directly with the Chinese parent company to coordinate their work with the headquarters but they predominately adopt local practices. InnoCo is the only exception, where the HR aspects are managed mainly
from its Chinese headquarters. Chinese headquarters thus exercises little control over the HRM department of their German subsidiaries, except for InnoCo.

Although the majority of the case subsidiaries have a more localised approach to their HR management, the HRM varies among the studied cases here. The main distinguishing factor is that the studied brownfields and greenfields vary in their size and thus also in the management of their workforce. While AutoCo, HeavyCo, CarCo, and EnCo have at least one designated HR manager, MedCo and InnoCo have no local manager focusing on the subsidiary’s HRM work. In both cases, the (deputy) general manager is responsible for the HR tasks. Contrastingly, CarCo’s parent company has appointed a German manager as its global HR vice president and its supervisory board - consisting of an international management team - has decided to standardise its management practices across its Chinese, North-American and German regional headquarters. MedCo has an informal HR and ER approach and InnoCo’s general manager also applies a more informal approach. Mayson and Barrett (2006) for instance, report that the size of a company is positively related with the formalisation of HR planning, performance appraisal, and formal training. Viewing this from the perspective of the German subsidiary, this research also observes this correlation.

EnCo and InnoCo’s parent company both aimed to transfer their HRM practices to their German subsidiary. While EnCo quickly changed its strategy to a location approach and is in the process of building a new local HR system, InnoCo’s HR tasks are still managed directly from the Chinese headquarters. There is thus a distinction of the degree of professionalisation of the HRM between the acquisitions and greenfields of the studied cases. InnoCo’s parent company is the exception in managing InnoCo’s HR aspect from its Chinese headquarters.
This is not only related to HR issues but to the employment representation within the subsidiaries of this study. While, all three acquisitions of this study, AutoCo, HeavyCo, and CarCo have elected a works council, the greenfields have no formal employee representation. The interviewed employees at the greenfields usually reacted with surprise about the question of employee representation and did not expect to have such formal practice in their small subsidiary. The distinction between greenfields and brownfields is thus evident in the degree of HRM professionalisation and whether or not a works council is elected.

There are several additional noteworthy observations. First, the recruitment and selection practices follow typical German practices; that means no formalised practices such as assessment centres or psychological tests are conducted. Instead candidates are selected by their resume, CV and (semi-structured or unstructured) interviews. Guanxi was noticed at InnoCo and EnCo. Such a home country influence was mainly transferred through Chinese expatriates or nationals working at the German subsidiaries. The light-touch approach is overall evident in the German subsidiaries (except for InnoCo) and an informal transfer process of guanxi can take place if Chinese expatriates are sent or Chinese nationals are employed at the German subsidiary which was observed at EnCo and InnoCo.

Second, payment and performance practices and policies are determined by the collective and firm-level agreements of AutoCo, HeavyCo, and CarCo. Nevertheless, the parent companies of AutoCo and HeavyCo unsuccessfully tried to implement performance-based payment in the German subsidiaries. The actors of these two German subsidiaries used the institutional environment and organisational structure as arguments to resist such transfer attempts. CarCo complies with the German collective agreements but also follows the global compensation practices of its
Chinese parent company. The Chinese company has recruited several German managers in the supervisory board to include the German regional headquarters in the global decision-making process and to prevent resistance from the workforce. MedCo and InnoCo paid salaries below the market average which MedCo’s deputy general manager successfully changed by referring to the local labour market and subsidiary performance in order to attract better qualified candidates. EnCo uses the market mechanism to attract highly qualified engineers from across Europe by paying salaries above the local standard and being located in an attractive city. This approach aims to ensure that Chinese expatriates posted to EnCo can learn and a transfer of knowledge can take place from Germany and Europe to China. All parent companies of the studied German subsidiaries aim to learn. The Chinese acquirers continue with the payment and performance practices, while EnCo and MedCo pay average to very attractive salaries to their employees. Only InnoCo pays a below average salary for the region and sector. They do not offer any other attractive benefits except for a generous annual bonus.

Third, there is difference among the subsidiaries in offering trainings to their employees and engaging in vocational training. The three acquisitions of this study follow common German practices, such as an apprenticeship system, dual study programmes, and employee development programmes. While CarCo seems to have the most elaborated training and development programme for its employees, AutoCo and HeavyCo offer limited trainings due to their financial restrictions experienced in the three years before the fieldwork. Contrastingly, the greenfield subsidiaries have not formalised a training and development programme. An exception is EnCo which has an annual performance and development review meeting for each employee. EnCo offers trainings if employees request them and if they are approved by the team leader.
All interviewed employees of the three greenfield subsidiaries wished for more training and development opportunities which MedCo and InnoCo do not offer yet (except for MedCo’s mandatory health and safety training). The differences in training and development practices and policies may have emerged either through the size of the subsidiaries or a Chinese home country effect.

The institutional environment, market conditions, and organisational context have been used by the organisational actors of the German subsidiaries to shape their own practices and resist transfer processes. An exception is InnoCo. Although the employees and the general manager do not internalise the HRM practices from the Chinese HQ, they rarely use resources to resist any transferred practices and policies. An example where they successfully resisted a transfer process by the Chinese headquarters was the prevention of setting up cameras in the office. As this practice would clearly have breached the German law, InnoCo’s employees successfully resisted this transfer by referring to the German law. Informal home country effects at the HR level were also observed - transferred through Chinese expatriates or Chinese nationals. The Chinese headquarters of the studied cases have not started to transfer or were not successful in introducing new HR practices to their German units except for InnoCo.

This analysis has shown, that the agency of organisational actors and micro-politics influence the decision-making process in these German subsidiaries owned by Chinese companies. Integrating the two frameworks has helped to understand how the macro levels influence the agency of local organisational actors and how local organisational actors use the macro levels to shape decision-making processes in subsidiaries. When looking at managerial and HRM practices and the transfer processes, both the macro and micro levels play a role in shaping those.
To sum up this chapter, the majority of the Chinese companies owning the German subsidiaries that are studied in this research project follow a light-touch approach. The home country effect of the Chinese companies on adopting local practices derives mainly from the macro-level context. First, the society effect influences the localisation strategy in that Chinese companies could only recently invest abroad. Through the international investment restriction of the Chinese government, Chinese companies are still relatively inexperienced in managing overseas units. Second, the strong host country’s industrial relations system supports a location approach, too. This is again a society effect. Third, the dominance effect also influences the strategy in that Germany enjoys a high reputation with regard to the manufacturing sector. All Chinese companies have invested in Germany to access knowledge and technology from this sector and seem to have chosen a localisation strategy to tap into the market and knowledge. This dominance effect also effects this approach in another way in that local actors of the German subsidiary perceive their practices as superior and therefore would not adapt easily or internationalise Chinese practices quickly. Fourth, entering the market via acquisitions also encourages a localisation approach (organisational factors). The macro-level effects gives us insight as to why Chinese companies tend to adopt local practices in their German practices.

Such a light-touch approach allows the local actors of the German subsidiaries to increase their agency. This is particularly well demonstrated in the cases of AutoCo, HeavyCo, and EnCo where the Chinese parent company lacks local knowledge, international experience, and aims to access this by means of acquisitions abroad. Hence the German actors are able to resist transfer processes from the Chinese headquarters more easily. This study has shown how local actors use their context to influence micro-politics and decision-making process. While the strong German
industrial relations system and labour laws are often used by local actors to initiate change or oppose transfer processes from the Chinese parent companies, actors vary in their success to initiate change or oppose transfer processes and they use different resources next to the home country context. Although some ‘end’ results are similar, the paths to this ‘end’ have been very different in the six German subsidiaries and depend on the local actors' relationship, personalities and how they have used the macro context.
7. Discussion and conclusion

This chapter concludes this thesis with an evaluation of the research findings and their implications. The chapter is divided into four sections. The first section provides a summary of the main findings of this research and how they advanced our understanding in this field. The second section reflects on the implications of the findings for future research on human resources, employment relations, and the practical considerations for managers and governments. The third section discusses some of the limitations to the findings. Finally, the fourth section suggests ideas for future research projects.

7.1 Summary of the research findings

With a multiple case study of six Chinese companies which entered the German market through acquisitions or greenfield subsidiaries, this research investigated how organisational actors embedded in the institutional and market context shape the human resource management and employment relations practices and policies in the German subsidiaries. This research was guided by the main research question: ‘How are German subsidiaries and their human resource management and employment relations practices affected by their Chinese parent companies?’ and several side research questions:

a) How does the context of Chinese companies investing into Germany affect the organisational actors and the management of German subsidiaries owned by Chinese companies?

b) How is the context, consisting of different systems, institutional environments, market conditions, and organisational characteristics, and the dominance effect, perceived, responded to, and utilised by different organisational actors to shape, negotiate, resist, and implement management practices and policies in Chinese MNEs operating in Germany?
Using personal interviews, organisational documents, observations, webpages, and newspaper articles, these research questions were explored in six German subsidiaries owned by Chinese companies. The acquired data of the three acquisitions and three greenfield cases indicate that the light-touch approach and the inexperience of the Chinese parent companies allows the agency of the local actors of the German subsidiary to become more important.

The Chinese context becomes evident in these case studies in three ways. First, the type of ownership characterising the Chinese companies influence the entry mode into Germany. While all private-owned companies enter the German market with greenfields, the majority of the SOEs enter the German market through the acquisition of German companies. Studies on MNEs do not often look at state-ownership and a significant state influence on FDI is uncommon in the Western world. The role of the Chinese state in OFDI has increasingly caught the attention of other country’s governments which receive growing Chinese OFDI from China, such as Germany. As it is likely that the investment from China and other emerging economies will increase and with it the percentage of state-owned companies from emerging economies investing abroad, future research can investigate the effect of state ownership on their international management strategies and practices.

Second, the origin of province affects the extent to which the German companies are successfully managed. AutoCo’s parent company is the only SOE originating from an inland province (which was later exposed to the open market) and this affected the management style differently compared to the provinces where the Chinese parent companies of CarCo, MedCo, EnCo, and InnoCo originate from. AutoCo’s parent company has failed to formulate a strategy for its German subsidiary and AutoCo was
not integrated into the parent company. In contrast, HeavyCo’s parent company originates from a coastal province which opened earlier to the open market and this parent company has a clear business strategy for HeavyCo. While this research is not sufficient to give insights into how the sub-national variations in China affects the management practices it does indicate that there are possible variations among Chinese companies from different provinces. In this research, for instance, Chinese companies from coastal provinces were more accessible to the researcher. Therefore, future research could focus on the sub-national variation among Chinese MNEs.

A third noteworthy aspect of the Chinese context is the informal transfer of values and practices through Chinese expatriates. This informal transfer is reflected, for example, in the influence of *guanxi*, in the recruitment and selection process at InnoCo and EnCo, and in the greater power distance at InnoCo and HeavyCo. These informal practices are transferred through posting Chinese expatriates or employing Chinese nationals at the German subsidiaries (mainly HeavyCo, InnoCo, and EnCo). These practices do not seem to be intended to be transferred but through their presence of the Chinese expatriates at the German subsidiaries these transfers occurred. While transfer of informal practices through expatriates is not new, it shows the importance of the micro-level for the transfer process and how the micro-level is affected by the macro-level.

This multiple case study provides evidence that the context of Chinese companies investing into Germany tends to follow a light-touch approach, not only in the management of human resources and employment relations aspects but also the general management of the studied German subsidiaries. The majority of case subsidiaries, including HeavyCo, AutoCo, and MedCo, the local management (thus not the Chinese parent company) can decide about general management issues and
human resource management tasks. EnCo’s HR manager has made decisions about EnCo’s HRM strategy and work, but the subsidiary itself is led by the Chinese headquarters and has to coordinate its work with the Chinese parent company. CarCo is the only German subsidiary where its Chinese parent company has a global approach and CarCo’s HR practices are a hybrid of local and standardised practices. This is in contrast to InnoCo where the Chinese parent company has kept as much control over its German subsidiary as possible, especially with regard to HRM practices. In comparison to a lighter touch approach present in the majority of the studied companies, MNEs from Western MNEs tend to be more proactive and exercise more influence over their overseas HRM issues (e.g. Almond et al. 2005; Edwards and Ferner 2002; Rosenzweig and Nohria 1994). The main home country effect of the studied Chinese companies investing in Germany appears to be a light-touch or hybrid approach to the HRM and ER management - with the exception of InnoCo.

There are five macro levels affecting the six German subsidiaries owned by Chinese companies in this study. First, the system effect was observed on the one hand in the media discourse, how politicians and newspaper have become increasingly critical of Chinese OFDI in Germany and Europe in general, and on the other hand some of the interviewees at AutoCo, HeavyCo, and CarCo acknowledge that they associate a negative image with China and Chinese companies. What sets Chinese companies apart from other MNEs investing in Germany is that China is a country which is not a strong ally of the European Union and follows its own economic system. Intensifying the concerns is the role of the Chinese state in Chinese OFDI and whether an unfair competition has started between Chinese and German companies. The
difference in the Chinese and German economic and political systems increases the concerns about Chinese investment in Germany.

Second, the institutional context of both China and Germany affects the German subsidiaries. Due to previous regulations in China, Chinese companies were only recently permitted to invest abroad and therefore their international experience and knowledge of the German context is limited. The German context offers a strong industrial relations system protecting workers and supporting the work between employers and employees (e.g. Behrens 2009, Hassel 2014). For instance, AutoCo, HeavyCo, and CarCo are all members of the employer association, have each elected a works council, and acknowledge the sectoral collective agreements. At these subsidiaries, the German institutional context enabled the local organisational actors to oppose the transfer of performance-based pay to the German locations.

A third level is the market which influences various aspects of the studied German subsidiaries owned by Chinese companies. For example, MedCo and EnCo both want to attract talent. To do so both they both focused on the salaries. EnCo choose to pay a higher than average salary for the region and sector from the start in order to attract talent from across Europe. MedCo first paid a salary slightly below the average and then decided to increase this. The reason is that MedCo’s performance developed well and the deputy general manager was then able to negotiate a higher pay for MedCo’s workforce to attract better qualified candidates. Contrastingly, InnoCo’s parent company pays a below the average salary for the sector and region and the Chinese manager experiences difficulties to attract and especially retain talent. The market level has thus influenced the payment practices and recruitment and retention of talent at the three greenfields.
A fourth level is the organisation itself which can have an impact on different practices as experienced by both. For example, AutoCo and HeavyCo both experienced through the acquisition. Prior to the sale, both companies belonged to a German conglomerate. Through the acquisition and light touch approach both companies have undergone a change from being part of a large corporation to becoming a medium-sized company.

A fifth level is the dominance effect which can affect which kind of practices are adopted. This study has demonstrated that the German perceive their HRM and managerial practices as superior to the ones of the Chinese owners in all case studies. In addition, the Chinese parent companies are all interested in the expertise and technology of the German subsidiary or the German market and thus assess the expertise in Germany at least as positive. The dominance level has also led to a light-touch approach towards the studied German subsidiaries.

The light-touch approach at AutoCo, HeavyCo, MedCo, and partially at EnCo and the hybrid approach at CarCo combined with the aim to access expertise and technology of the German subsidiaries have allowed local actors to carry out a greater degree of influence on local practices and policies. For example, AutoCo and HeavyCo’s works councils were both confident to request a five-year commitment from the Chinese investors prior to the sale. The greater exercise of agency of AutoCo and HeavyCo’s works councils is facilitated through two factors: first, the dominance effect and second, the recent and rapid appearance of Chinese investors on the world market. First, the dominance effect is observable for instance at both AutoCo and HeavyCo’s works council who think that their company and workforce have ‘superior’ expertise and technology compared to the Chinese investors and that is their competitive advantage. This is one reason why both works council signed a ‘best owner’ agreement with the Chinese owners. This example shows how actors have used the
dominance context to exercise their agency. Through following a light-touch approach, the Chinese investors minimised resistance from the local workforce but this also allowed local actors to exercise a greater degree of their agency in the German subsidiaries of this study.

There are several macro levels which were used by local actors of the six subsidiaries of this study to initiate change (AutoCo, HeavyCo, CarCo, MedCo, and EnCo) or oppose transfer processes (InnoCo, AutoCo, HeavyCo): 1) the international inexperience of the Chinese parent company (society and institutional effect), 2) the parent company being exposed to the global market only relatively recently (market effect), 3) the reputation of the German market or subsidiaries in the respective field of the six cases (dominance effect), 4) organisational characteristics, and 5) the German institutional context. This study indicates that multiple macro levels and the micro level influence the management and HRM practices of German subsidiaries owned by Chinese companies.

7.2 Contributions of the thesis

This section summarises the theoretical and empirical contributions of the thesis, discussing both the research and practical implications.

7.2.1 Theoretical contributions

This research attempts to add to the lack of knowledge about IHRM of EMNEs by studying six Chinese MNEs investing in Germany. There is still a lack of research about the impact of international activities of companies from emerging countries, such as China, on the international HRM and employment relations of their foreign subsidiaries (Cooke 2012; Cooke and Lin 2012; Zhu et al. 2008). The new development of Chinese MNEs investing in Germany and other developed economies
is labelled as an “upward investment” (Moon 2004) which this research has investigated. This research investigated this new direction of investment activities undertaken by Chinese companies to test the combined frameworks of Edwards and colleagues (2007) and Smith and Meiksins (1995) in a new context. The thesis makes five contributions to the existing literature on IHRM of MNEs.

The first contribution is the finding that six levels - both on a macro and micro level – should be taken into account when studying the impact of upward investment on international HR and employment relations. The combined frameworks of Edwards and colleagues (2007) and Smith and Meiksins (1995) suggest that system, dominance, institutional, market, organisational effects and the micro level should all be taken into account. This research demonstrated that all these levels indeed shape the management and HRM practises of German subsidiaries owned by Chinese companies. In particular, it was shown that these levels influence and are used by the local actors of the six subsidiaries to initiate change (AutoCo, HeavyCo, CarCo, MedCo, and EnCo) or oppose transfer processes (InnoCo, AutoCo, HeavyCo). To better understand the management of German subsidiaries owned by Chinese MNEs, it is therefore useful to draw on both the political economy framework by Edwards and colleagues (2007) and the system, society, dominance, and corporate effect (SSDC) framework by Delbridge and Colleagues (2011). While the political economy framework is informative about the micro-politics within MNEs, the SSDC framework incorporates the global dynamics captured by dominance effects. The strengths of the two frameworks complement each other.

A second noteworthy observation contributing to the theoretical field is that the different contextual levels not only influence the management practises, but the different levels are used as resources by local organisational actors to influence the
decision-making process. Interviewees of the German subsidiaries tend to recognise the indispensable position or importance of their respective subsidiary for the Chinese parent company (including market access, local market expertise, technological knowhow, and technology). This knowledge has led to a greater agency of the local organisational actors in Germany to demand changes (AutoCo, HeavyCo, MedCo, EnCo and to a degree at InnoCo) or resist transfer process initiatives from the Chinese parent company (seen in AutoCo, HeavyCo, InnoCo, and EnCo).

This research shows that in a majority of the studied Chinese MNEs investing into the German market, the agency of the local organisational actors is of importance. Due to the light-touch approach applied by the Chinese MNEs to the German subsidiaries, their lack of international experience and local knowledge of the German context, the agency of local actors of the studied German subsidiaries becomes crucial in shaping not only the local HR and ER practices and policies but also the general management of the subsidiary. This study demonstrates how the interaction of the macro and micro levels constitutes a distinct context for Chinese companies. For instance, MNEs from the US tend to aim for assimilation; for the centralisation, standardisation, and formalisation in their management of their foreign subsidiaries’ human resources (Ferner et al. 2004). In contrast, the Chinese MNEs of this study tend to aim more for semi-integration for their German subsidiary. The Chinese parent companies allow a great deal of autonomy to their German subsidiaries in order to learn from the adaptations and gain access to local resources. The semi-integration of the German subsidiaries allows German actors to execute a greater agency on the local management and to oppose transfer processes of the Chinese parent company.

A third contribution is the finding that the way agency is exercised by local actors varies across subsidiaries. While some aspects of the macro level (system, institutions,
and dominance) of the studied acquisitions cases were fairly similar, the relationships between the local management and works council strongly influenced how the agency by the local management and works council was exercised. For example, AutoCo and HeavyCo’s works council proactively influenced the sale process to reach a ‘best owner’ agreement with the respective Chinese owner. Although the studied subsidiaries, AutoCo and HeavyCo, signed similar ‘best owner’ agreements, the agency of AutoCo and HeavyCo’s works council differed strongly. Both used the strong industrial relation system to initiate a discussion about a ‘best owner’ agreement. While AutoCo’s management tried to avoid informing the works council about the potential sale and negotiation process, HeavyCo’s management invited the works council to the negotiation process in order to gain a favourable agreement with the Chinese investor for the company and the workforce. Interestingly, agency was exercised differently in these two cases, but similar results were developed in each context. AutoCo’s works council used the local ER system, the subsidiary’s competitive advantage, and insights into acquisition to resist the sale. AutoCo's works council was able to sign a ‘best owner’ agreement and patronage with the Chinese buyer. HeavyCo’s management collaborated with the works council and they used the subsidiary’s competitive advantage to sign a ‘best owner’ agreement. The agency exercised by the local organisational actors varies across the German case subsidiaries and the macro level context is used differently as resources by local management and works councils.

A fourth contribution is that this study shows that the (Chinese) upward investment context and the dominance effect tend to lead to the adoption of a light-touch strategy. The Chinese parent company of AutoCo, HeavyCo, and MedCo apply a light-touch approach not only in the HR management but also in the general management. The
Chinese SOE owning EnCo restricts the light-touch approach to the HRM work. The German interviewees refer to the lack of international experience of the Chinese owners as the reason why the German subsidiaries enjoy such high autonomy in their management. The light-touch approach seems to be adopted through an interplay of a lack of international experience by the Chinese owners but also the dominance effect of the respective German acquisitions. AutoCo, HeavyCo, and CarCo have advanced expertise and technology in their fields when they were bought and MedCo, InnoCo, and EnCo were founded due to the reputation of Germany in the respective fields. HRM aspects are additionally strongly influenced by the German institutional context. The light-touch approach applied by the Chinese investors is thus a strategic approach to access knowledge and technology without creating additional resistance through introducing new managerial practice. In comparison to US MNEs, Chinese MNEs tend to manage their subsidiary differently, seeking a localised and informal management approach towards their German subsidiaries. In comparison, US MNEs seek to centralize, standardize, and formalize their management of human resource (Ferner et al. 2004). This indicates that the management task is different in Chinese MNEs to MNEs from advanced economies.

A hybrid or light-touch approach seems to be the preferred and most successful approach for these Chinese companies to access expertise and technology acquired by the German subsidiaries studied here. InnoCo does not apply such a light-touch approach and it is unsuccessful in transferring knowledge or technology to its Chinese subsidiaries although this is a clear aim and part of the business model at InnoCo. The light-touch approach in combination with a long-term commitment to the German location seems to be promising for these Chinese owners of the studied German subsidiaries. It potentially reduces the resistance of the local workforce and allows the
Chinese owners to gain access to knowledge and technology from their German subsidiaries more easily - via Chinese expatriates who transfer this knowledge to the Chinese headquarters. Whether the light-touch approach is an effective approach to transfer knowledge to the headquarters and, if so, under what conditions this approach works best is to be answered in future research.

7.2.2 Empirical contributions

The thesis makes three empirical contributions to the existing research on the IHRM of MNEs and German industrial relations. First, this thesis contributes to closing an empirical research gap in the area of the IHRM of MNEs. Most of the research and literature on IHRM is focused on either Western nations operating in other developed economies or in developing economies (Thite et al. 2013). Cooke and Kim (2017) also note that although the IHRM of Chinese MNEs has gradually been taken up as a research subject, this research area is still far from being well researched. This thesis contributes to closing the empirical gap by exploring the nature of the IHRM of German subsidiaries owned by Chinese MNEs.

A reason to expand the analytical level(s) is that Chinese investment in Europe has reached €35 billion (£31 billion) in 2016, a 77 percent increase from 2015 (UNCTAD 2018). This recent, rapid growth of Chinese cross-border acquisitions in sensitive sectors in Europe, so-called upward investment, has meant increased political and media interest in Chinese OFDI. Chinese OFDI in developed countries raises concerns among politicians in Europe, but also in Australia and the US. Several larger EU countries, including Germany which have in the past enthusiastically welcomed Chinese investments, are worried about the nature of those investments. Chinese OFDI focuses increasingly on the technological sector. The case of the Chinese firm
Midea which acquired the German robotics maker Kuka in 2016, was a turning point for German politicians and reconsidered the benefits of Chinese investment. European decision-makers are, for example, worried about the consumer data collected by the Chinese companies, and they are concerned about European know-how migrating to China as a result of the Chinese firms' vast presence in Europe – particularly since European firms lack reciprocal access to the Chinese market. A briefing to the European Parliament warns: “Chinese OFDI may come with implicit strings attached and could potentially act as a Trojan Horse affecting European norms and policies, from human rights to labour laws” (Meunier 2012:iii). China’s OFDI is feared to be not only of economic nature but also to be being linked to political motivations. The global political and economic dynamics have made Chinese MNEs' foreign investment activities in Europe a more politically sensitive issue.

Second, the thesis covers two ownership types, Chinese SOEs and POEs, as well as greenfields and brownfields. The majority of the reviewed studies focusing on the IHRM of Chinese MNEs has concentrated on studying the IHRM of Chinese SOEs (examples are Akorsu and Cooke 2011; Di Minin and Zhang 2010; Shen and Edwards 2004, 2006; Spigarelli and colleagues 2013; Xing and colleagues 2014; Zhang 2003; Zhang and Edwards 2007; Zhang and colleagues 2014; Zhu and colleagues 2014; and Zhu 2015). Cooke (2009) notes that Chinese POEs are not sufficiently covered as research topics in the field. The study shows that the selected Chinese POEs have invested only in greenfields in Germany and not in brownfields. This is in line with the analysis of the EMENdata which has shown that Chinese POEs mainly invest in greenfields and Chinese SOEs more often in brownfields. Indeed, three of the four Chinese SOEs in this case study have acquired German companies. Although the entry mode is different, all six Chinese companies have an interest in not only accessing the
German market but also to acquire strategic assets. This thesis has started to address the lack of research on Chinese POEs and the results reported here serve as a first step to expand the theoretical work on ownership types.

A third noteworthy contribution is the finding that German works council can play a significant role in securing a mid-term commitment and investment from new (Chinese) buyers and therefore ensure security for the employees after the sale of the company. In light of the concern about the erosion of the industrial relation system in Germany (see for instance Hassel (1999)), this research shows that the works council can be a powerful institutional actor in the IR system and can be an asset in terms of having expertise in vocational training and health and safety procedures.

7.2.3 Practical implications from this thesis

This study has several practical implications. The following section discusses the considerations for (European) managers and employee representatives when entering into a collaboration with a Chinese partner. In addition, considerations for (European) politicians ae suggested.

Managerial implications for current subsidiaries of Chinese MNEs

Analysing the research’s findings, there are two main observations that can be suggested to German subsidiaries already owned by Chinese multinational companies or thinking of deliberating a takeover by a Chinese buyer. First, the majority of Chinese owners of the case subsidiaries applied a ‘light-touch’ approach. Chinese firms thus tend to exert little influence on the German management, including areas of HRM and ER, research and development, sales, purchasing, production, quality, and marketing. However, in all six case studies, the Chinese owners did seek control over financial matters, for example, investments, larger purchases, or sales had to be
explained and signed off on by the Chinese owners. The Chinese management required basic information but not the strategic details necessarily. In addition, the German subsidiaries had to regularly report their current financial figures. German managers and works councils should be aware that Chinese companies can follow a different management and integration approach compared to MNEs from the US.

Second, the working relationships between the Chinese parent company and the German subsidiaries were generally positive. An exception is InnoCo. Interviewees stressed that they followed a proactive strategy seeking contact with the Chinese investor. Such proactive behaviour seems to be beneficial for the actors of the German subsidiaries. Due to the semi-integration of the German subsidiaries studied here, local actors can have a greater degree of freedom and therefore this study indicates that a proactive strategy with the Chinese owner is useful.

Third, most German companies tend to view Chinese MNEs as a financial provider with long-term interests. It remains to be seen to what extent Chinese investors take their promise seriously in the long term. Emons (2013, 2015) states: "So far, there has been no acid test in any company taken over, such as a severe economic collapse which brings the German subsidiary or the Chinese parent company in trouble." From the point of view of the interviewees of the three acquisitions, the workforces of these studied German subsidiaries have done better than they would have had they gone with financial investors whose only focus was short-term returns.

Advice to German practitioners preparing for Chinese investors

There are a number of considerations which are useful to practitioners if preparing for a takeover bid by a Chinese company or evaluating a Chinese investor.
The particular sector one’s business is operating in is relevant for two reasons. First, the German government has extended its investment-screening regulations, the ‘Foreign Trade and Payments Ordinance’, from the energy sector and transport infrastructure to include sectors which are seen of significance for Germany’s public security, such as telecom or aviation. For public order or security reasons, the German Federal Ministry for Economic Affairs and Energy can now block certain acquisitions of at least 25 percent or more by an investor outside of the EU (The Economist 2018). If one’s business is operating in a sensitive field this should be taken into account when considering being taken over by a Chinese company.

Second, the business might be operating in a sector promoted by the Chinese government and thus be included in their national strategic interest. This can be beneficial financially for the German subsidiaries when seeking new funding opportunities. A disadvantage can be that the German business can also become caught up in some political crossfire between the German and Chinese governments.

Third, background information of the Chinese investors can be helpful. For example, it would be useful to consider the regional and political influence of the Chinese government and previous international experience. One should consider whether the Chinese company is a state-owned or privately-owned company, whether it has a close relation to the provincial and central government, and whether its top managers are politically well connected or even hold political offices. Applying this in context, the interviewees of InnoCo stressed that their parent company is a private-owned company. However, research about the background of the company shows that 1) InnoCo’s parent company has strong political connections, 2) its main customers are the Chinese central and provincial governments, and 3) the majority of the employees are member of the Communist party of China. Although InnoCo’s Chinese parent
company is thus privately owned the company is considerably influenced by the Chinese central and provincial governments. This can explain the unusual bureaucratic management style for a Chinese POE. This example demonstrates that in-depth research of the company’s background can provide valuable insights and help to understand the behaviour of the relevant Chinese investor.

**Chinese companies investing in Germany**

Although this research predominantly focused on the perspective of the German subsidiary, Chinese managers can take away several aspects from this research. First, as mentioned above, a light-touch seems appropriate if the Chinese management is inexperienced, lacks legal and local knowledge of Germany, or aims to access knowledge and technology from its German subsidiary. A semi-integration of German subsidiaries allows the Chinese owner to observe, learn, and gain access to assets.

Second, due to the recent and rapid expansion of Chinese OFDI (see Knörich and Miedtank 2018), there is limited information and an uncertainty about Chinese investors coming to Germany. At AutoCo and HeavyCo, a ‘best owner’ agreement was signed between the respective works council and the Chinese investor. This worked well. To gain trust Chinese companies can thus reassure German partners of their genuine interest by committing to the location and local employment for a medium period of time.

Third, if the sector in which the business is operating in is affected by the extended investment-screening regulations, the German Federal Ministry for Economic Affairs and Energy can block certain acquisitions of at least 25 percent or more by an investor outside of the EU. If one’s business is operating in a sensitive field this should be taken into one’s considerations when contemplating business decisions.
Fourth, while Germany has tightened its investment regulations in sectors sensitive to Germany’s security and infrastructure, there is also an increasing negative narrative in the media and public about Chinese investment in Germany and Europe. Chinese companies could improve their image by developing a local PR strategy, by giving interviews to the media, and by becoming more actively involved in the local communities of their foreign subsidiaries. A transparent and clear communication, localisation of management, and local collaborations are steps that can be taken in order to gain trust among the German workforce and public.

Recommendations to German, European, and Chinese governments

Although not the focus of this research, some insights can also be offered to the governments involved with or affected by the Chinese investment. First, Western Europeans politicians in general and German politicians in particular seem to believe that Chinese investment is a security risk and that China might increasingly influence politics in Europe (see context chapter four section two). As a result of these concerns, the German government has, for instance, expanded the investment screening rules. Governments in advanced economies are challenged by the need to weigh the gains of foreign investment against potential threats to the national interest. Policy-makers should explore which regulatory and policy tools are at their disposal to minimize any long-term negative effects while harnessing the benefits for firms. For example, they may need to establish more effective methods for screening with regard to proposed acquisitions and additionally regulate the outward transfer of know-how resulting from these deals. Additionally, the German government or the EU can set up a platform to share ‘best practices’ for dealing with Chinese investors. AutoCo and HeavyCo’s ‘best-owner’ agreements are an example. The German government and
the EU can take several steps to support local businesses when Chinese investors are interested in investing in the German market.

In addition, the question arises from the public debate as to what extent the German government is aware that German businesses possess unique power resources and have the capacity to deploy them in the bargaining context (Bélanger and Edwards 2006; Bouquet and Birkinshaw 2008). Instead of increasing the protection against Chinese investment and giving in to the fear of the Chinese influence in Europe, an alternative path is to act proactively, expanding national investment in the educational sector and R&D to enhance the competitive advantage of German businesses on a global scale and decrease their economic and political vulnerability.

The Chinese government could do its own part to provide reassurances about the intentions of Chinese acquirers and to reduce the level of state involvement in China’s outward FDI. A second suggestions (which China has already started to work on) is that future Chinese policies should ensure that foreign acquirers will be able to have the same degree of access to the Chinese market as many advanced economies currently offer to Chinese firms.

The German government, the EU, as well as the Chinese party can each take different measures to support businesses and empower organisational actors in Europe by informing them about Chinese investors and setting up measures to review mergers and acquisitions by Chinese investors.

7.3 Limitations

There are two main limitations to the findings of this research. First, there are practical limitations to the size and scope of the case studies. The research design of this study is based on six German subsidiaries of Chinese MNEs. The similarities, differences,
and explanations developed in this thesis limit the insights of this study and theoretical generalisation can only be made cautiously.

A second limitation involves the kind of companies which were accessed. During the access stage some potential gatekeepers shared only contacts to successful cases of Chinese companies operating in Germany. Various potential gatekeepers were forced to decline access to the researcher when the Chinese HQ declined the research request. Often the potential gatekeeper said that they have ‘nothing to hide and have a successful collaboration with the Chinese owner’. The limitations of the selected case studies become apparent when interviewing another expert who assisted a Chinese investor acquiring a German company. The expert reports that the goal of the Chinese buyer was to limit the influence of German employment relations system as much as possible on the acquired company. In addition, the majority of the case studies represent acquisitions in which access was gained via a German contact person. Brownfields with a Chinese management and Chinese greenfields in Germany are more difficult to access via the German network. Chinese greenfields with a Chinese manager were also approached but all declined the research request or did not reply. Accessing such cases would be of interest to see to what extent such cases are similar or different to the ones presented here.

This qualitative research followed an iterative process which was influenced by factors outside of the researcher’s control, such as the access to case companies. The research involves an element of pragmatism given the researcher’s resources and the time scale of this research project. Reflection of the choices made in this thesis and the awareness of the limitations can reveal where future research can progress.
7.4 Future Research

There are a number of relevant directions for future research noted here. First, future research has to examine to what extent Chinese companies have the capacity to engage in reverse transfer processes at home and how effectively they process such knowledge derived from their foreign subsidiaries. In relation to the transfer process, this study found that all Chinese companies have - to different degrees - an interest in transferring knowledge and expertise from the German unit to their Chinese headquarters. Early theories of MNEs assumed that foreign firms have to possess a ‘firm-specific advantage’ that was generated at home and spread to other countries (Hymer 1976). Doz and colleagues (2001:4) argue that MNEs’ competitive position is increasingly shaped by their ability to mobilise knowledge from their network of subsidiaries (see also Bartlett and Ghoshal 1998). Reverse transfer processes require appropriate firm-level mechanisms which the management centre has to design. Gaining access to Chinese headquarters which have European subsidiaries, is an excellent research objective to better understand the dynamics of reverse transfer processes from developed economies to less developed economies. Reverse transfer processes are potentially very significant for EMNEs as these processes can function as sources for innovation that are subsequently transferred from the subsidiaries to their headquarters (also labelled as ‘reverse transfer’). Reverse transfers are one way for EMNE to gain access to new knowledge and technology and enhance their competitive position (Holm and Sharma 2006). This research has shown that Chinese MNEs have an interest in and access to the managerial and technological knowledge of their German subsidiaries. By choosing a light-touch approach, the studied Chinese parent companies aimed to access the local knowledge and technologies of their German subsidiaries. Kostova (1999) argues that foreign subsidiaries can formally
accept forward transfer processes but to what extent they adapt, implement, and integrate these practices depends on the organisational actors of the subsidiaries. Similar questions are of interest to the reverse transfer processes. To what extent are practices and policies adapted, integrated, and implemented in the Chinese MNEs? Through the current pace of technological development, it is necessary for companies to quickly mobilise the existing knowledge from all the organisational units. And, therefore, it is thought that such research can not only be of interest for MNEs from emerging economies but even MNEs from developed economies could eventually learn from this research to design new organisational mechanisms to initiate and conduct reverse transfer processes.

Second, there is further in-depth research needed on how MNEs from China and other emerging economies affect human resource management and employment relations practices in their foreign subsidiaries operating in Western European countries over time. This research followed a case study design to understand the dynamics of IHRM within Chinese MNEs operating in Germany. Future research might find it useful to apply and expand the multi-level analysis of MNEs through a longitudinal research design. Longitudinal studies could provide insights whether, when, how, and why MNEs from emerging economies change their business strategies and their international management strategies in their foreign subsidiaries. Such a longitudinal research design can involve revisiting the field sites regularly over an extended time period, in order to understand changes and continuity over time (Burawoy 2003). Longitudinal research could advance our understanding of how the dynamics of IHRM unfold in MNEs from emerging versus developed economies operating in developed economies.
Third, the organisational actors and group level could be explored more in depth. Initially the idea for this study was to send out questionnaires to the employees of Chinese subsidiaries to analyse their personality, their position within the company, and their role in the transfer process in more detail. As access to the Chinese companies proved to be difficult, this research limited itself to conducting interviews with employees. To look into group dynamics and leadership within subsidiaries, as well as individual characteristics of organisational actors our understanding of such organisational processes could be deepened. This however increases even more the complexity of the research object even more. Social network theories (e.g. Kilduff and Brass 2010) are one possible way to gain more insights into the transfer process of HRM practices.

Fourth, with regard to the Chinese context, there are several areas of interest to research. This study has investigated the diversity of the Chinese context and explored its impacts on Chinese MNEs. Future research may find value in exploring other distinct characteristics of the Chinese context. One of the observations that emerged from this research is that Chinese nationals with German work experience are sought after. Either as consultants to Chinese businesses or as general managers leading the German subsidiary for Chinese companies. They have a gatekeeper role for the Chinese companies to understand and interpret the German context and they are the voice of the Chinese MNEs to the German employees and managers. These Chinese individuals occupy a significant influential role and influence the forward and reverse transfer processes of practices and policies. Studying these individuals’ experiences would allow insights into how individuals can shape transfer processes.

Fifth, the political nature of Chinese MNEs can be fruitful to further investigate. Government involvement in businesses and their internationalisation through
ownership and regulations is not uncommon in developing and transitional economies (Peng 2000; Goldstein and Pusterla 2010). As is argued in this thesis, Chinese companies have become highly politicised in Europe, but also in the US and Australia (see chapter 4 for a review). More empirical work on the large Chinese SOEs and comparisons of SOEs from various merging economies would provide a more comprehensive picture in this respect.

Sixth, the current political dynamics offer an exciting new research context for transfer processes. While the US begins to recede from world trade and President Trump loses international political credibility, other economies, such as China and also Russia, consolidate their political and economic power. Does this affect the image of Anglo-Saxon ‘best practices’ of foreign subsidiaries of US multinational companies and US subsidiaries owned by foreign MNEs? And if is so, how? To gain a better overview of how the image of ‘best practices’ from the US might be affected by the current political development, (online) surveys to managers from various countries and MNEs could be sent or analyses of practitioners’ blogs and publication could be conducted to explore this question.

7.5 Conclusion

This chapter concluded this thesis by summarising the findings, outlining its theoretical and empirical contributions, formulating suggestions for German and Chinese managers and politicians, laying out the limitations, and offering future research ideas. This thesis attempted to provide insights into the international human resource management and employment relations of German subsidiaries owned by Chinese multinational companies. To do so this study focused on the context of the German subsidiaries of the case studies and on the way in which local actors are
affected differently by the context. The German subsidiaries of this study are affected by the combination of Chinese companies’ lacking international experience, the dominance effect and the coordinated market economy. This empowers local actors to exercise their agency to influence the local management, HR, and ER practices and policies. A successful strategy of the cases’ Chinese parent companies in order for them to access knowledge and technology is to adopt a light-touch or hybrid approach. This way they are able to gain trust from the local actors. An exception is InnoCo which was managed from the Chinese headquarters but was also not successful in transferring technology or expertise to its Chinese headquarters. Theoretically, the thesis makes its contribution by combining the political economy framework by Edwards and colleagues (2007) with the SSDC framework by Delbridge and colleagues (2011) and Smith and Meiksins (1995). The study shows how the dominance effect can benefit actors of the studied German subsidiaries (owned by Chinese companies) to increase the local influence on management practices. It also shows how in this context a light-touch approach benefits Chinese companies to access local expertise and technology of their German units in this specific context. Empirically, the thesis contributes to the research gap by examining the unusual investment flow from the emerging economy, China, to a more advanced developed economy, Germany. Scholars, practitioners, and policy makers can also learn from these research findings.
8. References


Narula, R. (2012). Do we need different frameworks to explain infant MNEs from developing countries?. *Global Strategy Journal*. 2(3): 188-204.


9. Appendix

9.1 Gatekeeper letter

PhD Project: Chinese MNCs in Europe

Research Objectives

The objective of this PhD project is to analyse the human resource management (HRM) practices and transfer processes in Chinese multinational companies operating subsidiaries in the United Kingdom and Germany.

The scale of Chinese investments together with the continuous expansion of the Chinese economy should make Chinese companies a top priority in the research agenda. Previous research focusing on Chinese MNCs has primarily concentrated on the motivation and strategies of Chinese companies investing in Europe. This project aims to analyse the human resource management practices between Chinese owned subsidiaries operating in the U.K. and Germany and how these positively support the transfer processes between the headquarters and their subsidiaries.

My main research question:

How do HRM practices by Chinese MNCs positively affect the transfer process of Chinese owned subsidiaries in the U.K. and Germany?

Therefore, I would be grateful if your company could permit me the time and the opportunity to benefit from your expertise by answering a series of questions which would be a great source of data to this research. The questions will focus on your HRM practices, in particular your staffing strategy and your training and development policies and your Chinese expats.

Potential Deliverables

As a potential delivery I can offer a comparison of the best practices of my case studies and an executive summary of my PhD dissertation. If wished, I can expand my study specifically to the needs of the company.

Tina Miedtank

Ph.D student at King's College London, U.K.
Ph.D Fellowship of the Stiftung der deutschen Wirtschaft (Foundation of German Business)
MSc. with distinction in Business Research and Methods at Kingston University, U.K.
MA. in Employment Relations at the Warwick Business School, University of Warwick, U.K.
BSc. in Psychology at Maastricht, the Netherlands
9.2 Information sheet and Consent form

INFORMATION SHEET FOR PARTICIPANTS

REC Reference Number: REP/14/15-13

YOU WILL BE GIVEN A COPY OF THIS INFORMATION SHEET

I would like to invite you to participate in this postgraduate research project Chinese companies coming to Europe: An analysis of the workplace management in Chinese subsidiaries operating in the United Kingdom and Germany as part of PhD requirement of King’s College London.

Participating is voluntary. You should only participate if you want to. Choosing not to take part will not disadvantage you in any way. Before you decide whether you want to take part, it is important for you to understand why the research is being done and what your participation will involve. Please take time to read the following information carefully and discuss it with others if you wish. Ask me if there is anything that is not clear or if you would like more information.

• This study seeks to understand the human resource management and learning processes of Chinese subsidiaries operating in the UK and Germany. The aim is to better comprehend the workplace management and transfer processes of Chinese MNCs in Europe from an academic as well as practitioner perspective.

• This research is sponsored by the Foundation of German Business (Stiftung der deutschen Wirtschaft).

• We are inviting managers and employees in your organisation to participate in an interview.

• You will be interviewed at your office for about 45 minutes. The questions will be about your work, the human resource management practices and learning process within your company.

• The personal risks of participating in this study are commensurate with having a typical conversation. A decision to withdraw at any time or a decision not to take part, will not affect you in any way.

• Interviews will be recorded, subject to your permission. Recording of interviews will be deleted upon transcription. All identifiable personal information will be anonymised with random number codes for your interview transcripts and the study database, which will be stored on a memory stick in a locked cabinet in a locked office in the King’s School of Management and Business. All personal information will be handled in accordance with the terms of the UK Data Protection Act 1998.

• You may request a copy of the final report upon publication by contacting the researcher using the details below.

• If you decide to take part in this study, please sign the consent form attached to the information sheet.

It is up to you to decide whether to take part or not. If you decide to take part, you are still free to withdraw from the study at any time and without giving a reason and you may request that any data collected be removed from the study up to two weeks after your interview date.

If you have any questions or require more information about this study, please contact me using the following contact details: Tina Miedlank at tina.miedlank@kcl.ac.uk or my supervisor Professor Tony Edwards via tony.edwards@kcl.ac.uk or 150 Stamford Street, London SE1 9NH, UK.

Thank you for reading this information sheet and for considering taking part in this research.
CONSENT FORM FOR PARTICIPANTS IN RESEARCH STUDIES

Please complete this form after you have read the Information Sheet and/or listened to an explanation about the research.

The human resource management and the transfer processes of practices in Chinese multinational companies

King's College Research Ethics Committee Ref: REP/14/15-13

Thank you for considering taking part in this research. The person organising the research must explain the project to you before you agree to take part. If you have any questions arising from the information sheet or explanation already given to you, please ask the researcher before you decide whether to join in. You will be given a copy of this Consent Form to keep and refer to at any time.

I confirm that I understand that by ticking each box I am consenting to this element of the study. I understand that it will be assumed that unticked boxes mean that I DO NOT consent to that part of the study. I understand that by not giving consent for any one element I may be deemed ineligible for the study.

1. I confirm that I have read and understood the information sheet dated 30/06/2014 for the above study. I have had the opportunity to consider the information and ask questions which have been answered satisfactorily.

2. I understand that my participation is voluntary and that I am free to withdraw at any time without giving any reason. Furthermore, I understand that I will be able to withdraw my data after my interview.

3. I consent to the processing of my personal information for the purposes explained to me. I understand that such information will be handled in accordance with the terms of the UK Data Protection Act 1998.

4. I understand that my information may be subject to review by responsible individuals from the College for monitoring and audit purposes.

5. I understand that confidentiality and anonymity will be maintained and it will not be possible to identify me in any publications.

6. I consent to my interview being audio recorded.

Name of Participant ___________________________ Date ____________ Signature ___________________________

Name of Researcher ___________________________ Date ____________ Signature ___________________________
9.3 Interview schedules

Interview for German/English managers

1. What are your tasks and which function do you have in this subsidiary?
2. How do you describe the place of this subsidiary in the overall MNC?
   a. What are the goals of this unit?
   b. What are the expectations of the German subsidiary?
3. Have things changed since the foundation and if so how?
   a. How did this subsidiary develop during the few last years?
   b. What are positive and what are negative changes?
4. How does the communication work between the German and the Chinese unit?
   a. Can you describe the mechanism of coordination and control?
   b. Who takes decisions?
   c. Who takes employment relation decisions?
5. What do you think of the relationship with the Chinese headquarter?
   a. Is this work of this subsidiary connected to the work of headquarters (other foreign subsidiaries)?
   b. Is the subsidiary primarily an implementer of headquarters developed strategy?
   c. Does the subsidiary have worldwide responsibilities?
   d. Does the subsidiary have a high level of information that headquarters does not have regarding product or product line?
   e. To what extend does the HQ review the subsidiary activities?
   f. Do the activities of this subsidiary influence the outcomes of headquarters (other foreign subsidiaries)?
6. How do you describe the level of trust between the headquarter and your subsidiary?
7. Do you facilitate informal personal contact between managers across units?
a. Such as setting up teams/committees to allow managers from different international locations to engage joint decision-making
b. specific project, communication, meetings, etc?
c. How many days per year do subsidiary top managers at spend corporate headquarter?

8. Is there a Chinese influence and if so how would you describe it?

Have you anything else you would like to say that we have not mentioned before?

Do you have questions about the interview?

Thank you for your time.
HRM specific questions

1. Can you describe the mechanisms of HR coordination and control? (especially in connection with the headquarters?)
2. How are HR practices at your subsidiary decided?
3. To what extent has the German HR department decision-making power (about its practices)?
4. To what extent are the activities in HR in general reviewed by the Chinese investor?
5. How do you plan the future of this unit and department?

Recruitment

1. How are new positions filled? (the best qualified are searched internally or externally for a predefined position)
   a. Candidates are recruited according to performance and expertise or interpersonal skills?
   b. Do they have a high or low employee turnover rate?

Training

1. What kind of training are offered to employees and managers?
2. Does your subsidiary focus their training on the individual or the working group?
3. To what extent are there efforts to introduce new employees to the corporate culture?
4. Is there an exchange of knowledge facilitated by the HR department?

Salary and assessment of promotion

1. Is the focus more on individual performance or seniority and group success?
2. Are promotions more result-oriented or behaviour-oriented criteria?
3. Are there also individual remunerations?

Communication

1. How would you describe the place of the German branch within the group? (summarize what I know from the previous interview)
2. - How would you describe your corporate culture?
3. - How is the company coordinated and controlled?
4. - Is the coordination of communication very detailed and broad or rather short, structured and efficient in your branch and your team?
5. - How are decisions made in your company?
6. - Rather decided from above?
7. - Rather based on hard facts, then soft facts, such as qualitative variables?
8. - Decisions are more authoritarian or more participative and consensus-oriented?
Interview topics for employee representative

Brief introduction
Thank you for taking the time, introducing the topic and background

Personal Information
What is your
• position
• responsibilities
• professional experience

• education
• age
• nationality
Gender (is noted)

Workplace
Can you tell me about how and why you started working for this company?
Could you tell me what you think about your workplace?
Are you in contact with your Chinese colleagues?
    Can you describe your (daily) interaction with your Chinese colleagues?
    How does the team work with your Chinese colleagues work?
    What do you think about your Chinese colleagues?
Do you believe that there is a Chinese influence in what you do?
    How is that?
How has the Chinese ownership impacted your employment?
    Change in formal policies? Change in practices?

Transfer Process
What kind of new practices have been introduced in the last year and have affected your work?
Did you adopt the practices and what did you think about these new practices?
How are new workplace policies/practices communicated to you?
    Did you experience problems with these new practices?
Has any new equipment been introduced to your workplace during your employment?
    How did it affect the way you do your work? Did you experience difficulties?

Chinese influence
Can you differentiate between made in China practices and those made in Germany/UK or best practices?

Parent company information
Could you tell me what you think about the headquarters?

Wrap up
Would you like to add something to this topic which we have not mentioned before?
Do you have some more questions?
Thank you for your time and sharing your experience and thoughts with me!
9.4 Coding scheme

<table>
<thead>
<tr>
<th>Code Labels</th>
<th>Code Definition</th>
<th>Code Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chapter 1 – HRM practices</td>
<td>Schuler and Jackson (1987) define HRM practices as a system that attracts, develops, motivates, and retains employees to ensure the effective implementation and the survival of the organization and its members. HRM practices is also conceptualized as a set of internally consistent policies and practices designed and implemented to ensure that a firm’s human capital contribute to the achievement of its business objectives (Delery and Doty 1996). Minbaeva (2005) views HRM practices a set of practices used by organization to manage human resources through facilitating the development of competencies that are firm specific, produce complex social relation and generate organization knowledge to sustain competitive advantage. Against this backdrop, we concluded that HRM practices relate to specific practices, formal policies, and philosophies that are designed to attract, develop, motivate, and retain employees who ensure the effective functioning and survival of the organization.</td>
<td>There are five common practices that have been consistently associated with innovation, namely performance appraisal, career management, reward system, training, and recruitment (Gupta and Singhal 1993).</td>
</tr>
</tbody>
</table>

1.1 Training and development – A process of assisting a person for enhancing his efficiency and effectiveness to a work area by getting more knowledge and practices. Training & Development is any attempt to improve current or future employee performance by increasing an employee’s ability to perform through learning, usually by changing the | Trainings, performance reviews, appraisal interviews, employee development reviews |
employee’s attitude or increasing his or her skills and knowledge.

<table>
<thead>
<tr>
<th>1.1.1</th>
<th>Training and Development</th>
<th>Changes which happened in the last 5 years, no changes caused by the Chinese management</th>
<th>Changes, new practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1.2.a</td>
<td>Training and Development</td>
<td>Practices which are influenced by the German context</td>
<td>Practices are influenced by German context, e.g. apprenticeship system, dual courses</td>
</tr>
<tr>
<td>1.1.2.b</td>
<td>Training and Development</td>
<td>Practices which are influenced by the Chinese context in the German subsidiary</td>
<td>There is an influence noticed from the Chinese HQ, such as less focus on training, HQ related</td>
</tr>
<tr>
<td>1.1.2.c</td>
<td>Training and Development</td>
<td>Practices which are influenced by other that the German and Chinese context in the German subsidiary</td>
<td>Examples of global ‘best practices’</td>
</tr>
<tr>
<td>1.1.3</td>
<td>Training and Development</td>
<td>The German subsidiary is used as training and development unit for employees from China/Chinese HQ</td>
<td>Chinese are trained in the German subsidiary Chinese aim to understand the system, German HR managers, work councils are invited to Chinese HQ</td>
</tr>
<tr>
<td>1.1.4</td>
<td>Training and Development</td>
<td>Signs of German training and development practices are interesting for/transferred to the Chinese HQ</td>
<td></td>
</tr>
<tr>
<td>1.1.4</td>
<td>Training and Development</td>
<td>- Reverse Transfer</td>
<td></td>
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</tbody>
</table>
1.2 Recruitment and Selection

The recruitment is about the ability of the organization to source new employees, keep the organization operating. It is about attracting, interviewing and hiring new employees. The perfect recruitment includes the adaption of the new hire. It is about the definition of the job vacancy, designing the appealing recruitment text and offering the competitive package to the winning candidate.

Recruitment can be defined as searching for and obtaining a pool of potential candidates with the desired knowledge, skills and experience to allow an organisation to select the most appropriate people to fill job vacancies against defined position descriptions and specifications. The process of finding and hiring the best-qualified candidate (from within or outside of an organization) for a job opening, in a timely and cost effective manner. The recruitment process includes analysing the requirements of a job, attracting employees to that job, screening and selecting applicants, hiring, and integrating the new employee to the organization.

1.2.1 Changes which happened in the last 5 years, no changes caused by the Chinese management

Changes, new practices

1.2.2.a Practices which are influenced by the German context

Practices are influenced by German context

1.2.2.b Practices which are influenced by the Chinese context in German subsidiary

There is an influence noticed from the Chinese HQ

1.2.2.c Practices which are influenced by other that the German and

Examples of global ‘best practices’
<table>
<thead>
<tr>
<th>and selection – other influence</th>
<th>Chinese context in the German subsidiary</th>
<th>Chinese aim to understand the system, German HR managers, work councils are invited to Chinese HQ</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.2.3 Recruitment and selection</td>
<td>Signs of German recruitment practices are interesting for/transferred to the Chinese HQ</td>
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<tr>
<td>- reverse Transfer</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>1.3 Pay &amp; Remuneration, Performance Appraisal</th>
<th>Any form of payment made to an individual for services rendered as an employee for an employer; services performed as an employee representative; and any separation or subsistence allowance paid. Reward is concerned with the formulation and implementation of strategies and policies that are to reward people fairly, equitably and consistently in accordance with their value in the organization. Compensation is such an activity through which organization on the basis of its ability and within law reasonably assesses the contribution of employees directly and indirectly for the distribution of financial and non-financial remuneration.</th>
<th>Guaranteed pay – a fixed monetary (cash) reward paid by an employer to an employee. The most common form of guaranteed pay is base salary. Variable pay – a non-fixed monetary (cash) reward paid by an employer to an employee that is contingent on discretion, performance, or results achieved. The most common forms of variable pay are bonuses and incentives. Benefits – programs an employer uses to supplement employees’ compensation, such as paid time off, medical insurance, company car, and more. Equity-based compensation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.3.1 Pay and remuneration, Performance Appraisal – changes 1.3.1.b Pay and remuneration, performance appraisal – German context</td>
<td>Changes which happened in the last 5 years, no changes caused by the Chinese management</td>
<td>Changes, new practices</td>
</tr>
<tr>
<td>Practices which are influenced by the German context</td>
<td>Practices are influenced by German context</td>
<td></td>
</tr>
</tbody>
</table>
1.3.2.b Pay and remuneration, performance appraisal – Chinese influence
Practices which are influenced by the Chinese context in German subsidiary
There is an influence noticed from the Chinese HQ

1.3.2.c Pay and remuneration, performance appraisal – other influences
Practices which are influenced by other that the German and Chinese context in the German subsidiary
Examples of global ‘best practices’

1.3.3 Pay and remuneration, performance appraisal – reverse transfer
Signs of German pay, remuneration practices are interesting for/transferred to the Chinese HQ
Chinese aim to understand the system, German HR managers, work councils are invited to Chinese HQ

1.4 General aspects of HRM
General aspects of HRM which cannot be assigned to points 1.1 to 1.3 (training, recruitment and development) nor 3.1 to 3.4 (communication and decision-making)

1.5 HRM and reverse transfer activities
Reverse transfer activities related with HRM topics

2. Works councils
A works council is an institutionalized employee representation in companies. In Germany, the works council is a body for the participation and representation of employees' interests which also participates in company decisions.

2.1 Trade unions and employer association membership
Employees members of trade unions? y/n
Employer member of the Employer Association? y/n
work council in the organisation? y/n
2.2 Work council – their work with the management

2.3 Work council – Chinese investors

2.4 Trade unions - Chinese investor

Activities of work councils in relation to Chinese acquisitions, Chinese management Interactions between work councils and Chinese management/HQ Activities of the trade unions with the Chinese investors in regard to case companies

3. Communication and Decision-making

3.1 Decision-making practices

According to Harrison and March (1984), decision-making can be defined as evaluating and estimating the values of available alternatives of possible action and choosing the best of these alternatives. In the context of this thesis, the decision-making is perceived as a generic definition for the concept of problem solving including rational and irrational reasoning and also the emotional process of selection between alternative courses of action.

3.2 Communication practices

Communication system consists of procedures and rules both formal (plans and budgets) and informal which communicates plans and goals; monitors the organization; and informs others of the developments within the organization. Formal communication tends to be scheduled in advance, arranged participants, participants in role, present agenda, one-way, impoverished content and formal language & speech register. The structural and functional characteristics of communication
and the nature of the communication setting influence the degree of formal

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</table>
4. Institutional factors

Work councils
trade unions
laws, regulations

5. Organisational level

Practices and policies
organisational structure
HQ
Subsidiary

6. Micro politics

Actors micro behaviour, in particular examining the conflicts that emerge when powerful actors with different goals, interests and identities interact with each other locally and across national and functional borders to exert a formative influence on social structures and human relations. Securing options, realizing interests, and achieving success however take place in a contested terrain. Thus, micro-political conflicts are everyday occurrences which can appear in every organization,

6.1.a Interests of German subsidiary

6.1.b Interests of Chinese management

6.2 Interaction with Chinese management

6.3 Teamwork between

Strategies and power games of work councils, bargaining processes
Active and passive behaviour to reach goals, interests by employees, management, work councils
Active and passive behaviour to win conflict
Chinese and German management

6.4 Support of Chinese activities
6.5 Interactions among German employees/manager/work councils

E.g. conflicts

6.6 Leadership perception
6.7 Motivation why working for a Chinese company