Locational Choice of Chinese Companies in Europe an Empirical Trend Analysis

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Abstract
Western market entry strategies follow the International Strategic - and Marketing Management Approach (Kotler, Ph. 2003; Kotler, Ph. and Keller, K.L. 2006; Keegan, W.J. and Green, M.C. 2003). They stipulate clear, approved analytical management tools: from vision to mission, from objectives to goals and tasks. The result shall offer a feasibility study, a market research analysis and a draft business plan as a systematic basis for an investment decision.
Advanced Western MNC follow an ERM-approach (Enterprise Risk Management), where the focus lies on the various types of risks (in total about 50). These types of risks are qualified and ranked and set into a matrix system following the ERM – risk components. A lot of mathematical, statistical and arithmetical equations are used to verify the different scenarios (best, average, worst) however the crucial question remains: how to assess the underlying assumptions?
Going abroad for Western companies is crucial – not to gain profit in a first step - rather than to survive. Does this apply to Chinese companies as well? The Chinese foreign investment ratio (based on its GDP – Gross Domestic Product) has just reached a low of 3 % - a figure equal to Italy. A 10 % ratio would be normal for the Chinese economy. What are the reasons, why Chinese FDI (Foreign Direct Investments) are comparably low? How do Chinese enterprises and Government officials think about EU – investments? Is there a significant gap between SOE (State Owned Enterprises) and POE (Private Owned Enterprises), between production and trade sectors, between MNC (Multi - National Corporations) and SME (Small - and Medium - Sized Enterprises)? What countries or cities in the EU (European Union) are preferred as location choices, and if so, why?

In 2004, China – MOFCOM (Ministry of Finance and Commerce) statistics showed: China so far …

- had set up 3439 foreign direct investments,
- had opened 7470 branch offices in 139 countries,
- 43 % were SOE, and
- 22 % were POE
- 15 % of whole were investments in the EU,
- and 1120 branch offices were established.

Major investment countries were Germany, UK (United Kingdom), France, Netherlands and Italy. In Germany 800 direct Chinese investments were launched and in 2004 and 2005, in Germany 278 – mainly SME were purchased.

Famous Chinese brands or merged or bought companies in the EU are: Haier (Italy), Huawei (Italy), COSCO (Germany), Lenovo (France), China Telekom (UK), MG-Rover (UK), Dornier (Germany), Waldrich (Germany), Schneider (Germany).

The strategic target for Chinese FDI (Foreign Direct Investment) is clear:
Chinese investors want to get access to …

- the high-tech industry,
- the energy sector – especially the renewable sector
- the commodities markets, and
- global brands.

As a foreign academic expert living and lecturing in China I received many ad -hoc answers given to the question: “assumed, you are free to decide, where would you invest in the EU”? However, these ad-hoc answers showed no scientific results.

Examples:

- “we buy any company, but must offer high-tech advantages and must be cheap”, or:
- “we go, where other Chinese already have set up”, or:
- “we go, where our Government decides”, or:
- “we don´t go to that country because we dislike the President”, or:
- “we go to xyz, it is a nice city”.

So far there was no scientific approved research paper found to get clear answers about the questions:

- where will Chinese enterprises invest in the EU, and
- if so, what location is preferred, and
- what might be the underlying research sources and assessments”?

This research paper presents a first trend. It is based on 3 questionnaires.
We selected 2 test groups, both part-time MBA (Master of Business Administration) students at 2 Chinese Universities. The first group were 50 senior - or Executive level students from industries or government authorities in Hefei City, Anhui – Province during a CEIBS (China Europe International Business School, Shanghai) – International MBA course in May 2009. These CEIBS - MBA courses are sponsored by the EU and the Central Chinese Government. The second group contained 57 part - and full time MBA students at ECUST (East China University of Science + Technology, Shanghai) – MBA course in Shanghai in July 2009. In the first group (Hefei) we used two questionnaires: a general questionnaire which offered 3 basic questions, whereas the second questionnaire asked for answers of 14 detailed questions, proposing about 50 different options in an easy “yes - no – logical” structure. For the second group (Shanghai) we used a team-work questionnaire.

The Hefei group showed

- 78 % males and
- 22 % females,
- an average age of 39 years.
- 58,6 % worked in POE ,
- 24,1 % in SOE,
- 5 % in JV (Joint Venture Companies),
- 3 % in local Government organisations
- remaining 9,3 %: others

and it represented all sectors of the industry.

Major results in Hefei: 36 % wanted to sell Chinese traditional products in the EU (arts, crafts, furniture, silk), however: 44 % had no clue about the demand in the EU market. Major locations chosen named were: Frankfurt, Paris, London, however: 75 % had no idea about the geographical and economical hubs in EU. Information sources were named, but without any clear strategy, 14 % had no idea where to check. 44 % were interested in an investment in the EU, however: 42 % had no clear time frame. Facts which impacted the investment decision were: hard + soft facts and the “right” city.

Hard facts named:

- opportunities to enter the market,
- logistics,
- governmental benefits.

Preferred countries were: Germany (33 %), UK (11 %), France (10 %). German cities (Berlin, Frankfurt, Hamburg) were leading with 33 %, followed by Paris and London.

Important soft facts named:

- support from local authorities,
- friendliness,
- speed,
- Chinese language skills.

Statistics about the Shanghai group:

- 58 interviewees,
- 56 % females,
- 44 % males,
- average age: 31 years.
- business level: middle Management.

Major products named: traditional Chinese (tea, lady clothes, silk, TCM (Traditional Chinese Medicine), but also: electrical bicycles, Chinese fast-food, leather - products.

Countries named: Germany (38 %), Russia, Spain, Italy, UK, Slovakia.
Cities named: Germany (Hamburg, Munich, Hannover, Leverkusen), France (Paris), UK (London), Spain (Barcelona), Italy (Milano), Russia (Moscow, Petersburg), Slovakia (Bratislava).

Result:

- Chinese MNC follow the traditional Western Marketing and the professional ERM approach.
- Chinese SME however show a massive lack of Basic Western Economic Tools.
- Chinese SME in the West of China show a tremendous lack of know how about EU and its investment opportunities.
- Chinese SME show a massive lack of Western management know-how and cultural understanding.

Solutions:

- The EU should consider offering management - and cultural courses in conjunction with Chinese Governments authorities.
- The EU should consider starting a promotion tour through the West of China to encourage prospective Chinese investors

- The EU should consider launching a standardised web page about all EU investment opportunities (in English and Chinese) which all members have to use, however are free to include their respective information
- The EU members should consider setting up special Chinese Economic Development Areas offering special services. In that regard the EU can learn from the Chinese industrial and economical development system.

The EU members should consider actively promoting investments (especially M+A deals) for those companies which meet the demands of Chinese investors.