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# Chinese Companies in the Netherlands

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## Executive Summary

The rapid growth of Chinese investment in the Netherlands has been cause for both excitement and anxiety. Many of the companies and other investors are still unknown and the background and objectives of their investment often remain unclear. This research takes a close look at fourteen Chinese companies that vary in size, ownership form, mode of entry, age and sector. We explore the objectives, background and internal dynamics of these companies and focus on the challenges they are facing both in the Netherlands and China. Our most important findings are the following:

1. The overall presence of Chinese companies in the Netherlands is still modest, despite rapid growth in recent years. The level and overall economic impact of Chinese investment in the Netherlands is still much less than that from other major economies in the world (US, Japan). The Netherlands also lags behind other major European economies. To take advantage of China's economic growth and global rise, the Netherlands needs more, not less Chinese investment.

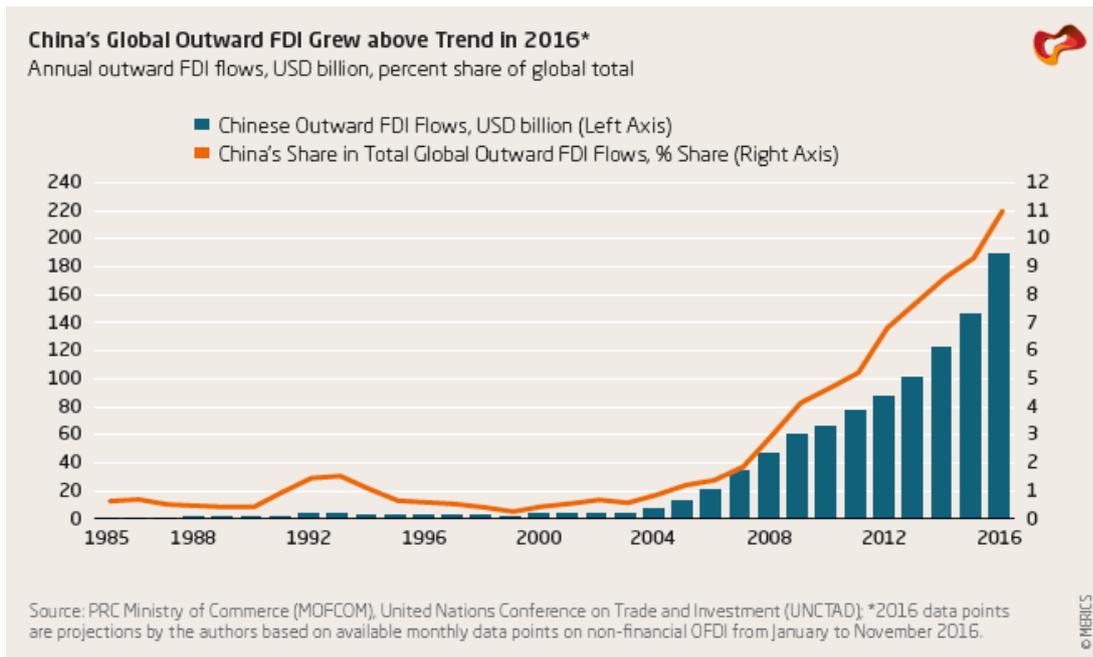
2. We should avoid a simple binary division between political and commercial motivations behind Chinese investment in the Netherlands. Chinese central and local governments, the Communist Party and state-owned and private companies are connected in a complex symbiosis. Government policy, company strategy and even personal considerations all play a role in determining the objectives, destinations and volume of investments abroad. Dutch businesses and policy makers therefore need to assess carefully what the strategic implications of specific investments might be, instead of simply making a choice either in favour of or against Chinese investment.

3. Although the Dutch domestic market is small, it is attractive to Chinese companies because of its favourable regulatory and tax regime, high-quality business services, safe and stable society, well-organised government, connectedness to other European countries, nationwide English proficiency, and pragmatic business attitudes. The Netherlands is an excellent stepping stone to explore the much larger European market. The Netherlands should build on to these advantages to attract Chinese investors who are deciding on a location for their business in Europe.

Many Chinese companies are here for the long term and are eager to learn and adapt to the local business environment. They are very aware of the huge cultural differences between China and Europe and their own lack of international experience, often amplified by a romanticised image of Europe. This provides the Netherlands with the opportunity to mould Chinese companies into enterprises that fit a Western economy and society. Through engagement and regulation, the Netherlands has the chance to help shape Chinese multinationals in the making.

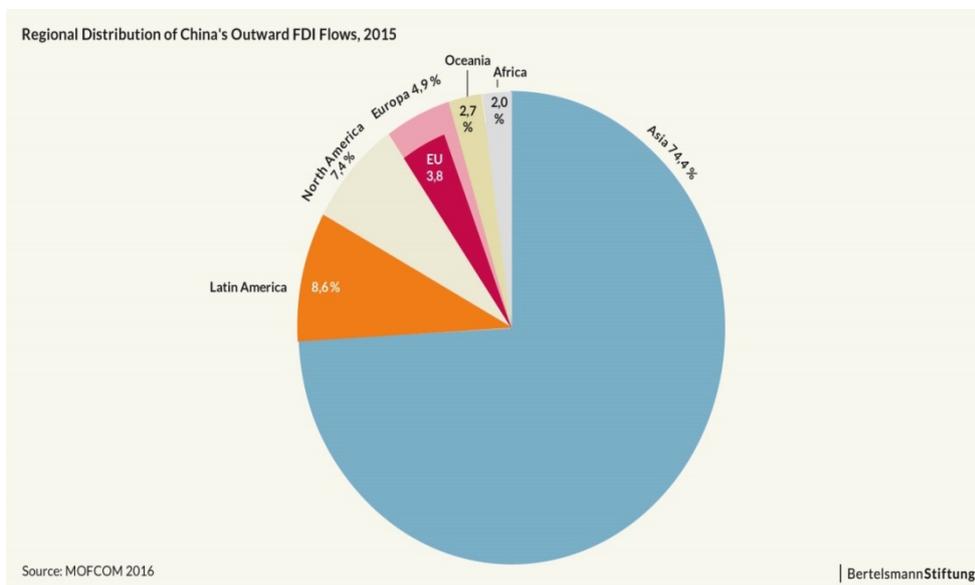
All in all, business encounters with China, an emerging superpower, are inevitable and essential for the Netherlands to maintain and enhance its position in the world. The presence of Chinese companies provides opportunities to accumulate knowledge and expertise on China and to building bridges and trust.

Image 1: China's outward FDI flows



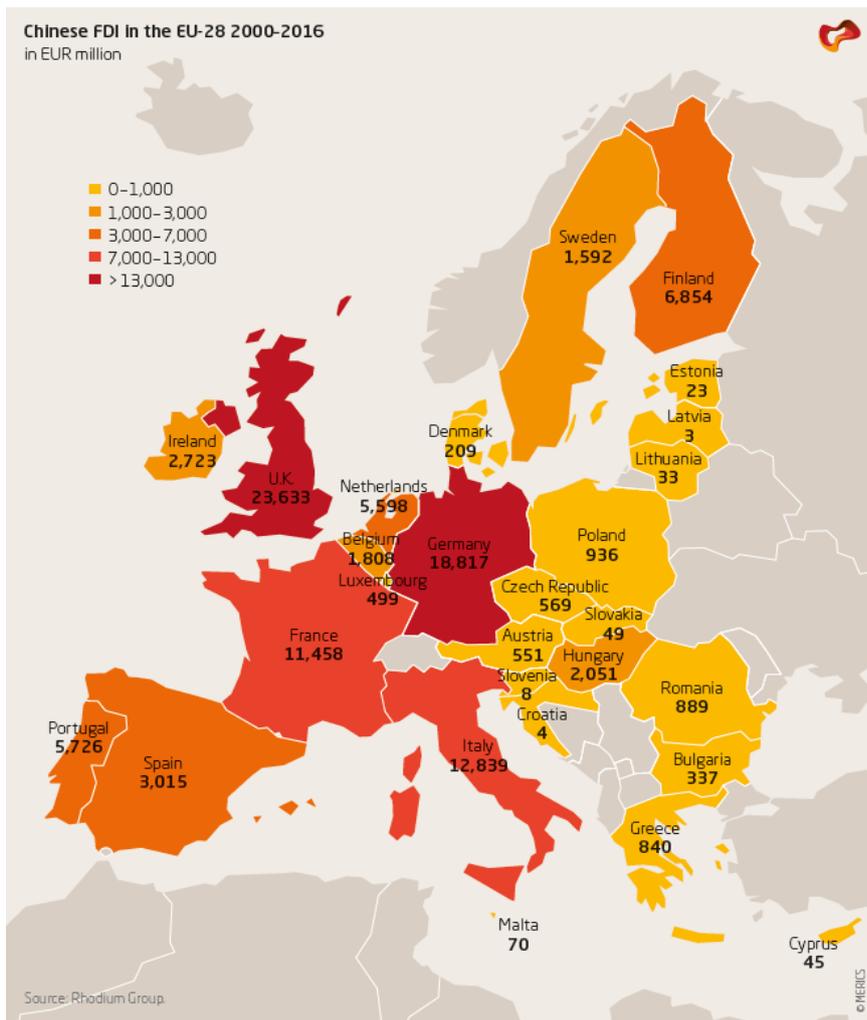
Source: MERICS, 2016

Image 2: Regional distribution of China's outward FDI



Source: MOFCOM, 2016

Image 3: Chinese FDI in the EU



Source: MERICS, 2016

## Recommendations

1. The Netherlands should make the most of its favourable business environment, including its nationwide English proficiency and attractive tax policies. Government hospitality is crucial, and the services provided by the Netherlands Foreign Investment Agency (NFIA) can be a key tool in attracting Chinese investors who are yet to decide on their business destination in Europe. Services
2. Chinese companies new to the Netherlands face many obstacles, one of which is the lack of a clear plan of business development. One of the reasons is that Chinese investors are often reluctant to spend money on market research prior to their arrival here, although market research is crucial. Moreover, the path towards “localisation” as aspired to by most Chinese investors still proves to be a challenge. Using local people to develop local business is a formula to success recognised by most Chinese companies in the Netherlands, who have been trying to employ Dutch local employees, and use Dutch local business services such as Dutch banks, legal services, business consultants and accountants. However, integrating Dutch or international businesses into a Chinese system requires considerable effort. Chinese companies must embrace some of the norms and values of the Dutch business culture. Separating business and personal life, communicating with employees on rather equal terms, making plans and giving detailed job descriptions are things they must gradually learn and practice.
3. The presence of Chinese investors raises new questions and opportunities for the Netherlands, eliciting adjustment and bringing connections, which will help the Netherlands better position itself vis-à-vis China in the future. Like other foreign investors, Chinese come to the Netherlands first and foremost for business. However, those commercial and personal initiatives of investing abroad are often mingled with political considerations of the state. Dutch businesses and policy makers therefore need to assess carefully what the strategic implications of specific investments might be, instead of simply making a choice either in favour of or against Chinese investment. This will not only serve Dutch interests but also, in the longer term, the interests of Chinese business in realising their aspiration to become truly global firms.

## Chapter 1: Introduction

### *1.1 Research questions*

Since the launch of the Chinese government's "going out" policy in the latter half of the 1990s, China embarked on a journey of investing abroad. In the last twenty years, China's outward foreign direct investment (FDI) has shown a dramatic and steady growth. In 1995 China's outward FDI was merely two billion US dollars. This figure has grown to about 128 billion dollars in 2015, almost catching up with its inward FDI flows (see image 1).<sup>1</sup> Along with the rapid growth in outward investment came the arrival of Chinese firms on the global stage. In Europe, "Chinese investment increasingly extend beyond the 'Big Three' economies (i.e. Germany, France, UK), fuelling the intra-European competition for Chinese capital"(see image 2) (Hanemann & Huotari, 2016).

The Netherlands is ranked number six among the EU-28 countries in terms of the value of cumulative investment received from China between 2000 and 2015, following the UK, Italy, France, Germany and Portugal (Hanemann & Huotari, 2016) (see image 3). In 2011, Chinese overseas foreign investment (OFDI)<sup>2</sup> in the Netherlands reached 2,625 million Euros, about twenty times the level of 1995 (Akemu & Deng, 2013). Although the absolute amount remains modest, accounting for only 0.6 percent of FDI the Netherlands received that year, the speed of its growth has been remarkable.

The rapid growth of Chinese companies in Europe elicits both excitement and anxiety, as "the new investors are still unknown and the impacts of their investment unclear" (Akemu & Deng, 2013). As one of the strong players in the European market, the Netherlands shares the fear and expectations of other European countries that the expansion of Chinese companies entails. Will Chinese investors buy up Dutch assets? Will they grab Dutch technology and disappear? Are Chinese companies just pieces on a chessboard of the Chinese Communist Party? Will Chinese investment spark a new vitality in the Dutch economy, helping it to recover from many years of sluggish development?

Today, we have considerable statistical knowledge about Chinese investment. However, statistics alone cannot fully describe the behaviour of Chinese investors. Some scholars also try to draw conclusions from analysing official documents, yet the rules and plans of the Chinese authorities are often very different from what happens in practice. What we miss is a micro-level understanding of the logic behind Chinese investment. To be able to achieve that understanding, we need to shift our viewpoint. How do Chinese companies perceive their own globalisation? How do they adapt to the Netherlands? Taking an insider's point of view, our research tries to contribute to a better understanding of Chinese companies in the Netherlands by exploring their complexity and internal dynamics.

In addition to this Introduction, this report consists of five main chapters. Chapter 2 provides an overview of the level and distribution of Chinese investment in the Netherlands. In chapter 3 we show how political, social, cultural and sometimes even personal considerations shape Chinese investors' decision-making. Chapter 4 takes a close look at the challenges and critical incidents Chinese companies initially encounter in their operations in the Netherlands. The

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<sup>1</sup>UNCTAD, 2016. Source: <http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx>

<sup>2</sup> Including Chinese investment from Hong Kong and Macau.

strategies, benefits and pitfalls of the localisation of business operations are investigated in chapter 5, while chapter 6 evaluates the impact of Chinese companies on the Netherlands and the implications for policy makers in government, business and society.

### *1.2 Research methods and limitations*

Both qualitative and quantitative methods were used in our research. For the qualitative part, we conducted eighteen intensive semi-constructed interviews, ranging from one to three hours, with seventeen companies.<sup>3</sup> Our interviewees are all Chinese managers or CEOs of multinational Chinese companies. Our analysis is based on fifteen interviews in fourteen companies, as three firms withdrew from the research after we showed them the transcriptions (for a list, see Appendix 1 at the end of this report).

Due to time constraints and limited accessibility we could not fully realise our original research design that included the full range of company types.<sup>4</sup> Moreover, the companies that accepted our interviews are the survivors and thus tend to be the successful ones. Nevertheless, we did cover a wide variety of Chinese companies in the Netherlands in terms of sector, ownership form, mode of entry, age, number of employees, amount of investment, and size of the parent company. Although our research cannot and does not want to claim complete representativeness, it does provide reliable insights into the range of experiences of Chinese companies in the Netherlands. This report is not intended as an assessment of the advantages or disadvantages of Chinese investment to the Dutch economy and society. That would require another approach and methodology. The research provides a Chinese perspective on the Netherlands and the many issues surrounding Chinese investments abroad. Our work is intended in the first instance for European and Dutch policy makers, businesses and trade unions, and more generally as a contribution to public and academic debate. We also hope that it will be useful to Chinese stakeholders, particularly those in the Netherlands and elsewhere in Europe, including embassies, media, associations and of course Chinese businesses themselves.

Most of the parent companies of the firms we interviewed are national champions in their industry, but there are also a number of small and medium-sized enterprises. Another two are start-up companies, whose founders used to work for Chinese companies in the Netherlands. One of them quit his job and started his own business; the other bought the subsidiary from the parent company and became the owner and CEO. Although they do not fit neatly into the category which we conventionally define as Chinese companies<sup>5</sup>, we decided to still include them because their identities and experiences are closer to Chinese investors than Dutch Chinese local entrepreneurs. Appendix 1 at the end of this report provides a detailed overview of our interviews.

For the quantitative part, we analysed datasets of the Dutch Chamber of Commerce (Kamer van Koophandel, KvK) and the Dutch Bureau of Statistics (Centraal Bureau voor de Statistiek, CBS). The KvK data provide a general overview of Chinese companies in the Netherlands, while the CBS has data on business performance and financial information. After data

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<sup>3</sup> In one case, we interviewed two managers from one company.

<sup>4</sup> At the beginning, we used three main variables (ownership – SOEs or POEs; mode of entry – greenfield or M&A and JV; activities of mother companies – manufacturing or service) to divide the Chinese companies in the Netherlands into eight categories. For each category, we originally aimed to do three interviews.

<sup>5</sup> FDI Chinese companies are conventionally defined as companies in the Netherlands with parent companies registered in China (mainly mainland), excluding investment from Chinese individuals or in retail or the catering trade.

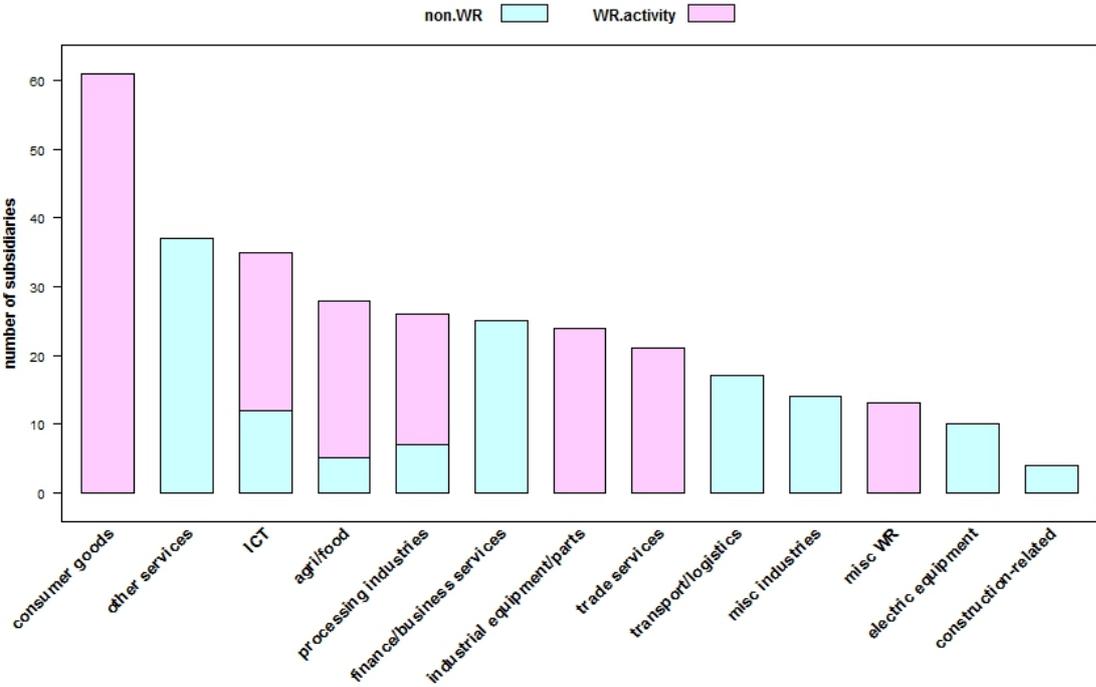
cleaning, recoding and restructuring, 315 Chinese companies were selected for final analysis. They are of Chinese or Hong Kong extraction, develop real business activities in the Netherlands and generate local employment. Due to our strict selection procedures, there is a chance some genuine Chinese companies were omitted from the sample. However, we can say with a high level of confidence that our findings do in fact pertain to Chinese and Hong Kong companies alone without distortion by the inclusion of local Chinese companies or empty-shell companies. We thus provide a realistic picture of the impact of Chinese companies on the Dutch economy (for more details on case selection and data cleaning, see Appendix II at the end of this report).

**Chapter 2: Who are they?**

In 2015, Chinese companies invested a total of 23 billion US dollars in Europe. The Netherlands received 2.5 billion out of the 23 billion and was among the top four destination of Chinese OFDI that year, following Italy (7.8 billion), France (3.6 billion) and the UK (3.3 billion).<sup>6</sup> According to our data from the KvK dataset, there were 315 Chinese companies in the Netherlands by the end of 2015.<sup>7</sup> Most of them are in the wholesale and retail trade (60 percent). The consumer goods sector attracts most Chinese companies. The services and ICT sectors follow closely, with Huawei the biggest player. The agriculture and food sector is also relatively large. However, there are few R&D or production facilities. Figure 1 shows a sectoral distribution of Chinese companies in the Netherlands.

*Figure 1: Sectoral distribution of Chinese firms in the Netherlands*

(WR activity = wholesale/retail activity, non WR = non-wholesale/retail)



Source: Dutch Chamber of Commerce, 2015

The geographical distribution of Chinese companies reflects the structure of the Dutch economy. About two-thirds of the Chinese companies are concentrated in the western parts of the Netherlands, clustering into the three largest urban agglomerations:

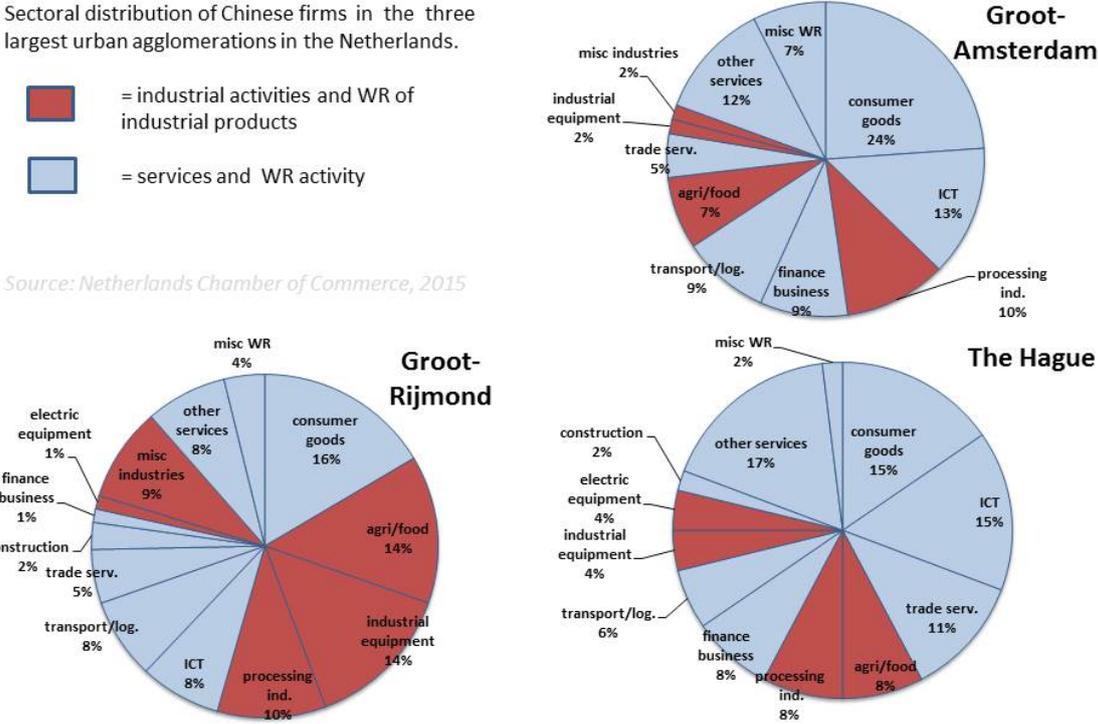
<sup>6</sup> Source: <http://www.bakermckenzie.com/zh-hans/newsroom/2016/03/chinese-fdi-hits-usd40-billion/>

<sup>7</sup> See Appendix III for a trend of growing of Chinese companies in the Netherlands

Rotterdam/Groot-Rijnmond, The Hague, and Groot-Amsterdam.<sup>8</sup> There are other sizable concentrations of Chinese companies in the vicinity of Eindhoven (tech-related) and West-Brabant (favourable location for logistics and distribution) and some smaller concentrations near Utrecht, Delft/Westland (agriculture/horticulture/tech), the Arnhem/Nijmegen conurbation (close proximity to the German market), Northwest Gelderland and Flevoland.

Chinese companies are not usually involved in industrial activities. In Groot-Amsterdam and The Hague, only a little over 20 percent of the companies are involved in manufacturing. Groot-Rijnmond is the exception. Rotterdam’s global port and associated industry make it the industrial centre of the Netherlands. In Groot-Rijnmond, 47 percent of Chinese companies carry out industrial activities and related wholesale and retail, ranging from agriculture and food to processing to industrial equipment (see figure 2).

Figure 2: Sectoral distribution of Chinese firms in the three largest urban agglomerations (WR activity = wholesale/retail activity, non WR = non-wholesale/retail)



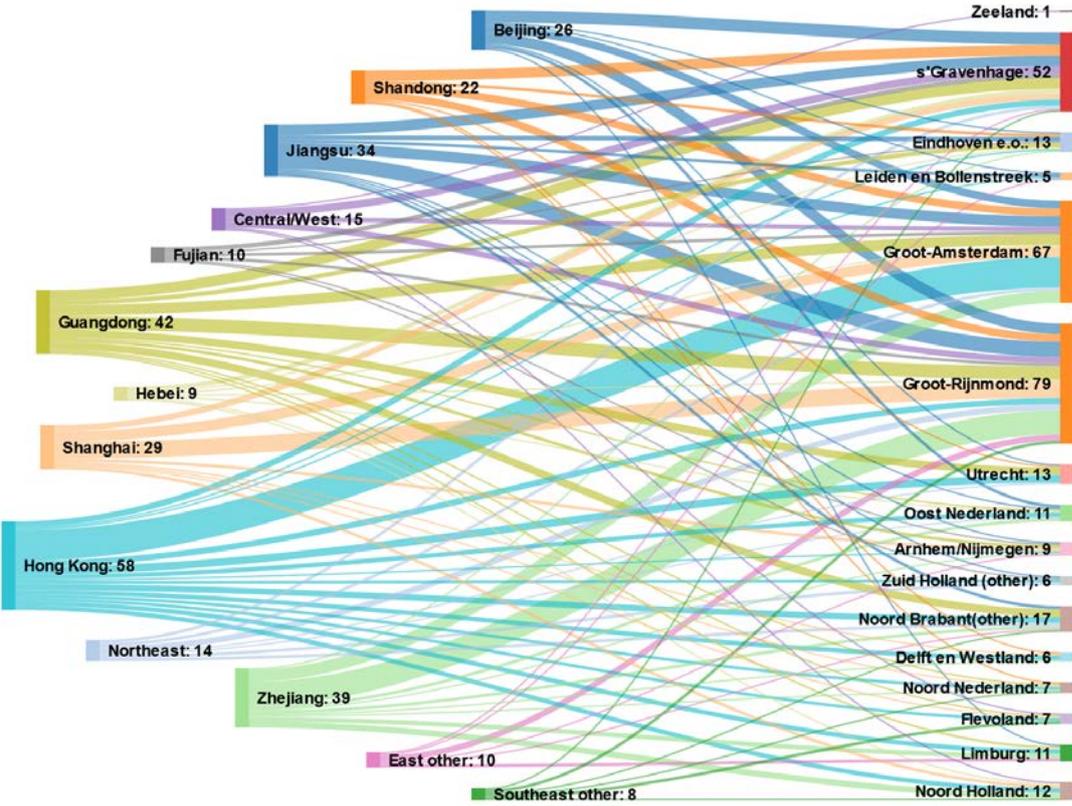
Source: Dutch Chamber of Commerce, 2015

The majority of Chinese firms originated from the east coast of China, Hong Kong, Guangzhou, Zhejiang, Jiangsu and Beijing. However, it is worth noting that investment from

<sup>8</sup> See Appendix IV for a detailed view.

less developed regions of China is catching up. For instance, 14 separate investments came from the central and western part of China. Hong Kong firms are concentrated in the Amsterdam Metropolitan Area, although they have dispersed throughout the country. Zhejiang, Guangdong, Jiangsu and Shanghai firms prefer the Rotterdam/Rijnmond area as a business location. Beijing and Shandong firms favour The Hague. Figure 3 shows how the origin and the destination of Chinese firms in the Netherlands are connected.

Figure 3: Origin and destination of Chinese companies



Source: Dutch Chamber of Commerce, 2015

Besides the geographic and sectoral distributions, there are two other main characteristics of Chinese companies that set them apart from other major investor-countries. First, state-owned enterprises (SOEs) account for a substantial share of China’s outward FDI flows and stock (Sauvant & Nolan, 2015). Second, despite the speedy growth of the total amount of investment, Chinese companies abroad are comparatively young and many of them are still quite small. In fact, according to the CBS Inward FATS data for 2013, 49 percent of Chinese firms were less than five years old and about 80 percent of them employ on average less than two people in the Netherlands. Figure 4 gives an overview of the number of subsidiaries and employees by enterprise size class.

Figure 4: Number of subsidiaries and employees by enterprise size class

China	micro (<10)		Small (10-40)		med/large (>40)	
year	subsidiaries	employees	subsidiaries	employees	subsidiaries	employees
2013	191	319	33	791	15	2.607

Source: CBS microdata

Many Chinese enterprises in the Netherlands are subsidiaries of state-owned enterprises in China. SOEs are a legacy of the Chinese planned economy. According to our interviews, having a government background is a two-edged sword. Most interviewees from SOEs confirmed that a government background is a positive asset domestically, since government indicates trustworthiness, compliance with the law and healthy finances. However, outside of China, being state-owned means very little. It could even backfire, as people may suspect SOEs to enjoy favourable conditions at home, giving them an unfair advantage in the free market abroad. Indeed, when contexts shift, meanings change as well. One interviewee told us that his company has mixed ownership, with an SOE being its biggest shareholder. When the parent company received a large loan from a Chinese bank, they were immediately accused by (foreign) media of being an arm of the Chinese government. The manager of this firm's subsidiary in the Netherlands grumbled:

But in our eyes, we need to pay interest. It is not a free loan. We got these loans because we need to build a huge production base in China. We pay a high interest rate for that. If we had the choice, we would rather borrow the money from the Netherlands. It's cheaper here.

Moreover, despite decades of internal reforms, many SOEs still suffer from low efficiency and nepotism. An SOE manager gave us an example. His parent company is in the same business and has roughly the same total assets as a large Dutch multinational enterprise, but its number of employees is fourteen times of their Dutch counterpart. "Can you understand that?" he asked me with a wry smile.

In short, for Chinese companies, the government may be an opportunity provider and a generous lender, but at times, it can also be an onerous burden, or a bad name. That is why many companies with mixed ownership tend to introduce themselves as a POE abroad, although their biggest shareholders could well be SOEs or government institutions.

The comparative young age and low employment should not obscure the fact that many of the registered subsidiaries do have huge parent companies. Among the companies that we interviewed, there are subsidiaries with just two to four employees in the Netherlands, but their parent companies are number one or two in their specific business sector in China with total assets worth billions and thousands of employees. And a powerful parent company means huge growth potential. For instance, one ICT service company started its operations in the Netherlands with just a small team and one single project for a Dutch local customer, but over the next ten years it grew into a company with 600 employees. Another high-tech company could initially only sell products under other brand names. After six years' operating from the Netherlands it had not only acquired the single largest market share in Europe but had also built up its own brand. Both enterprises have parent companies that are giants in their respective industries in China.

### **Chapter 3: Why do they come to the Netherlands?**

Between 2000 and 2015, the Netherlands received a total of 5.3 billion Euros in Chinese FDI (Hanemann & Huotari, 2016). The acquisition of technology is often regarded as the most important reason for Chinese companies' interest in the Netherlands. However, none of our respondents mentioned this. The high-tech companies we interviewed came to the Netherlands as greenfield investments rather than mergers or acquisitions and are mainly doing sales for the European market, keeping research and manufacturing functions either in China or in other parts of the world. The two M&A cases in our interviews are not high-tech related.

According to our interviews, a combination of considerations has taken Chinese companies to the Netherlands. Some of these more generally compel them to leave China, others attract them more specifically to the Netherlands. We will discuss the most important ones in more detail below.

#### *3.1 Commercial considerations*

Commercial, political as well as personal considerations all play a role in the choice of going global. Commercial considerations are reported as the main objective. As explained by one of the Chinese managers, "with the slow-down of the Chinese economy, capital naturally need to look for investment targets outside." Many companies in mainland China can no longer get high profit by investing in China. "Your return on investment is so-so abroad, but in China it's also so-so. However, if I go abroad, I can expand my scope of investment, improving my personal network and business network. In China, you can only compete in that pond."

This is especially true for listed companies, which tend to allocate their capitals globally for risk-reduction. On the other hand, some manufacturing companies need to find channels for digesting the overstock (e.g. stills), which was triggered by the four trillion economy-stimulus-policy starting from 2008. Additionally, for some companies that are doing global business from China, having an office placed in another continent allows them to work around the clock and optimise services to their global customers. Furthermore, the mergers and acquisitions (M&A) cases in our interviews indicate that Chinese buyers want to develop their businesses into specific sectors and purchasing established companies is obviously a quicker way to succeed compared to developing something new from scratch, although both ways entail risks.

#### *3.2 The call of the state*

The call of "going out" by the Chinese government has been answered. "Since the end of the 1990s, China's leaders have pursued the idea that to sustain economic growth, Chinese business must expand internationally" (Le Corre & Sepulchre, 2016). From the 1990s until 2016, the procedure of investing abroad has been dramatically simplified and access to foreign currencies has become easier. A manager we interviewed interpreted the government's baseline as follows: "as long as you stay away from corruption, you go." The Chinese government encourages companies to try their chances abroad, in the hope that some of them will become national champions, which can compete with leading international companies. In the meantime, the government also knows that many of them will not survive or make a profit. According to a government source in 2014, 23% of Chinese overseas companies reported a

loss.<sup>9</sup> A popular Chinese newspaper reported in 2012 that 70 percent of Chinese overseas companies did not make any profit.<sup>10</sup>

The Chinese government tries to exercise different levels of control over outward investment. In the case of SOEs, some are owned by a ministry or other department of the central government or a by local government. Others are having a hybrid ownership structure where government, either central or local, is the biggest shareholder. As far as POEs are concerned, the government, government-related institutions, as well as state-owned enterprises can still very well be their main shareholders. More importantly, the Chinese government has also been learning more subtle ways of control from market economies in other countries. It uses monetary and fiscal policies to direct the development of Chinese companies by offering incentives to the development of certain business sectors. It stimulates outbound investment and trade by providing low-interest loans and tax refunds. In addition, research funds are allocated that Chinese firms can apply for together with foreign institutions.

However, Chinese companies are no passive receivers and are by no means under the complete control of the government. They are keenly aware of what official rhetoric implies. When talking about government policies, rarely does anyone take it too literally. For instance, the Silk Road Initiative that started in 2013 (later rebranded as “One Belt One Road” and now called the “Belt and Road Initiative”) is mostly perceived as a largely empty slogan to encourage companies to develop abroad. The concrete routes or specific places are comparatively less important. As a matter of fact, several managers I interviewed wrongly believed that the Netherlands was not on the Belt and Road map. In one extreme case when asked if his company’s development abroad had anything to do with the “Going Out” policy, a POE manager answered (14):

Nothing at all. I even don’t know what One Belt One Road is. It looks so abstract! I tried to do some research on it, but I cannot understand it. I have read that many foreigners, even many people from Hong Kong, are discussing it. I am thinking, how could they understand it? Even I could not understand what the One Belt One Road does.

Actually, what the Belt and Road Initiative does is more about metaphorically summing up China’s spirit of globalisation, which is a trend long preceding the initiative itself. The call of the government does not necessarily interfere with the business activities of a particular company. Nevertheless, even without a thorough understanding of certain government policies, Chinese companies across the spectrum of ownership types are clever enough to make instrumental use of them for their own benefit.

### *3.3 Personal considerations*

Some managers and a business consultant we interviewed referred to “others” who invested in the Netherlands because they wanted a good education for their children, or they just wanted

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<sup>9</sup> “Chinese Ministry of Commerce, 2014 Statistical Bulletin on China’s Foreign Direct Investment” (2014 年度中国对外直接投资统计公报), *Ouzhou shibao* 17 September 2015, online at <http://www.oushinet.com/news/china/chinanews/20150917/205479.html>, checked on 2 January 2017.

<sup>10</sup> “Losses of foreign investment by Chinese companies amount to almost 1 billion yuan; 70% of investments do not make money” (中国企业海外投资亏损近千亿 70% 投资不赚钱), *Huaxia shibao* 11 February 2012, online at <http://finance.sina.com.cn/china/hgjj/20120211/081311358170.shtml>, checked on 2 January 2017.

to retire somewhere green and peaceful. Environmental pollution and education are the two biggest concerns of Chinese elite investors at the personal level. As for dispatching expat managers for instance, companies tend to have difficulties finding suitable staff to be sent to Africa, which has a rather backward image in the Chinese collective imagination, whereas Europe is perceived as a glorious place of high culture and great civilisations and a pleasant place to go. In other cases, sending well-qualified staff to Europe can be problematic, as “many under-qualified employees are eager to go, but the qualified ones want to stay in China.” We were told that people with children already registered in primary or secondary schools are more reluctant to leave China, because letting children take part in the Dutch education system is difficult, and returning them to the Chinese structure when the expat manager’s term, often between two to five years, ends is even more challenging. In general, expat manager with children on the verge of attending primary school, and parent companies not requiring a rotation of terms, are more likely to opt for positions abroad. Personal considerations work at the cross-roads of both push and pull factors of Chinese companies’ globalisation. The fear of environmental pollution, and the pressures of children’s education drive investors to find somewhere that provides exactly the things that are missing in China. In both cases, the Netherlands could be a good option.

### *3.4 Business environment*

The Netherlands has a famous slogan: Gateway to Europe. Many Chinese investors tend to cite it when talking about reasons of choosing the Netherlands for business investment. The metaphor of gateway suggests an entrance point and a sense of connectedness. It matches well with Chinese investors’ objectives in the Netherlands. In general, the Netherlands is regarded as a solid foothold from where Chinese companies can explore the European market. Most of the time, the plan of establishing a subsidiary in the Netherlands is only carried out after Chinese companies have secured a customer base in Europe. It is worth noting that customers do not necessarily need to be in the Netherlands. In a number of cases we found that a Chinese company’s customer database was in Germany, yet the company itself chose to establish an office in the Netherlands, due to other considerations.

These considerations often include visa for the Schengen area, favourable business laws and regulations, attractive tax policies, good financial environment and professional business services. The Netherlands is highly regarded as a good business service provider and an efficient mediator between China and Europe. What seems to be less important is the geographic location. Indeed, for Chinese managers who are used to the vast territories of China, flying between one and three hours within the EU does not make much difference.

However, there are companies that come to the Netherlands for the Netherlands’ sake. There are sector-specific considerations. Logistics and trading related companies, for example, opt for the Netherlands because of the Port of Rotterdam and they locate close to it. One of the reasons for some telecommunication companies to opt for the Netherlands is proximity to the biggest European internet exchange hub, located in Groningen, which offers them the fastest speed for their products and services. In the M&A cases, the Netherlands as a geographical location is not so much important as the specific targets for acquisition.

### *3.5 Click*

Moreover, some Chinese companies mentioned the so-called special click that guided them to the Netherlands. The click works effectively, especially when politicians are involved. For instance, Ado Den Haag’s new owner Mr. Wang said in an online interview that the

immediate click he felt with the former vice-mayor Henk Kool played an important role in his decision of buying the football club. And a number of Chinese companies credited the Netherlands Foreign Investment Agency (NFIA) for helping them to decide on the Netherlands. The Chinese-speaking staff of NFIA are described as very friendly and hospitable. A Chinese POE whose targeting customers were in Germany has ultimately decided on the Netherlands for its first European subsidiary. “The NFIA was very hospitable towards us, and we felt that it was difficult to refuse them” was given as part of the reason why they finally settled in the Netherlands. It is worth noticing that NFIA’s position as a government institution lends more weight to their hospitality. Indeed, sometimes when Chinese investors do not really know where to go, the Netherlands, Germany or the UK might look similar to them. Therefore, the hospitality of the Dutch government, represented by the NFIA, and the thoughtful services they offer could play an important role.

In addition, another kind of click has something to do with nostalgia. For instance, a horror film called *Amsterdamed* (1988)<sup>11</sup> was mentioned as a factor that attracted them to Amsterdam some decades later. Such a click may not be decisive in Chinese investors’ decision making, but pleasant emotions may serve as catalysts.

Furthermore, there is a third kind of click that is more pragmatic. Some of the interviewed companies report that the most important reason the parent company was attracted to the Netherlands is the “people,” who are seen as reliable and capable managers. In other words, for the parent company, managers they can trust are considered more important to the success of a pilot project than a particular country’s local culture, regulations and geographic position.

### *3.6 Image management: picture of the Netherlands in the EU*

Another important objective that triggered an influx of Chinese companies in the Netherlands is closely related to the collective imagination of the Netherlands as a modern, civilised, wealthy and well-organised Western European country. Having a Dutch office demonstrates the prowess of the Chinese company and appears trustworthy to people both at home and abroad, adding some competitive edge to the parent company. This is especially true for small and medium-sized POEs which have just started building overseas offices, as remarked by a manager:

If you have a subsidiary based in the Netherlands, they (customers) would assume you are financially solid and are properly paying your taxes. Your trustworthiness will be higher. Moreover, if you establish a company in the Netherlands it says something about your company’s capacity. All these are helpful.

However, many European countries would meet these standards. Nevertheless, almost every Chinese company came to the Netherlands after considering several options within Europe. Therefore, it is important for us to know how Chinese companies see the Netherlands within Europe. Many of the opinions we will discuss below are a combination of experiences, perceptions and reflections.

In general, there are four aspects that make the Netherlands stand out from other continental European countries.

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<sup>11</sup> *Amsterdamed* is a Dutch thriller film directed by Dick Maas in 1988.

First of all, being a comparatively fast adapter. The Netherlands is regarded a quick runner within the slow EU. As a Chinese manager puts it:

We often use 'the old Europe' to describe Europe. The Netherlands is comparatively quick in accepting new things within the European market. This is an advantage of the Netherlands.

This feature of being fast means a lot to Chinese investors, used to rapid changes and fast growth in the last decades.

Secondly, language advantage. Not only does a large percentage of the Dutch population speak English, but law documents in English are valid for business purposes. This is a big advantage for Chinese companies, since most Chinese are trained only in English as a second language. Moreover, since most Chinese companies apply a system of manager rotation, it is crucial that not only the initial manager but every successor can speak a foreign language that works in the overseas office.

Thirdly, there is a good balance between transparent regulations and flexibility. This combination is rather important for inexperienced Chinese companies. When regulations are clear, they are easy for foreign investors to follow. Flexibility within regulations allows for case-by-case assessments, and room for cultural and systematic differences. The Netherlands is praised for allowing time for consideration and adjustment when a new law comes into practice. Moreover, there is some room for negotiation between foreign companies and the tax office if things go wrong unintentionally. One of the Chinese companies we interviewed just closed some historical issues with the tax office and was very happy to be able to start anew. Its CFO told us:

We are still facing some challenges regarding issues of compliance. ...As a foreign investor, it takes time to really understand the local rules. It is even true for Dutch local companies. It's difficult to avoid such problems. As foreign investors, we hope we would receive more support from the Dutch local government and the local investment managing teams in order to optimise our operation gradually. Rather not to assume one is guilty first, but help us to make the progress.

Dutch policies are regarded as considerate and reasonable. As we will show later, being flexible is one major character of Chinese companies. Therefore, they are happy to do business with parties that mirror such room for adjustability.

Fourthly, building upon this flexibility, the Dutch show a good sense of business. The Dutch are considered as easy to do business with and to possess shrewd business acumen. One manager gave the example of a business partner who wanted to earn 100 Euros on a deal. "With a Belgium businessman, he will not do business with you if he earns less than 100 Euros but a Dutch businessman will probably accept earning 90 Euros, if you give him more volume." (9)

An overall impression of the disadvantage that the Netherlands has in comparison with most other European countries is the high cost of labour. Moreover, the Netherlands on its own is a rather small market. Many Chinese top managers spend most of their working days outside the Netherlands although the subsidiary is based here.

More specifically, some Chinese managers gave case-by-case comparisons between the Netherlands and other candidate countries they had considered investing in or had worked in. Germany has a bigger market, and more skilled technicians in machine manufacturing. However, the Netherlands has better tax and market regulations. It is more open, tolerant and less bureaucratic. It is easier to set up business in the Netherlands, a better entry point to Europe. The UK has rich historical connections with China and also offers a favourable business environment. However, the Netherlands is superior in the Schengen visa, providing a better stepping stone for companies expanding into other European countries. The Netherlands offers better tax rules and business environment than Belgium. Moreover, following the terror attacks, Brussels became a somewhat dangerous place to live. And while Eastern Europe may provide cheaper labour and lower business operation costs, the Netherlands offers a more secure society and stable policies.

However, some Chinese companies have ended up here “by accident” and despite having operated here for a number of years are still not sure if the Netherlands was the right choice. A Chinese manager recounted the following:

Every time when I visit customers, they ask me “Why have you come to the Netherlands?” I don’t know if it has a positive or negative connotation.

So where do they think you should go?

I don’t know. I also don’t dare to ask. They are all kind of thinking, it’s so weird that we come to the Netherlands. I don’t know if it means it is a good or a bad choice.

### *3.7 Conclusion*

Chinese firms continue to flock to the Netherlands. Generally speaking, the Netherlands is used as a foothold from where Chinese investors can explore the European market. Although the Dutch domestic market is small, it is particularly valuable to Chinese companies because of its favourable business environment, including tax regulations, high-quality business services, safe and stable society, well-organised government, connectedness to other European countries, nationwide English proficiency, and pragmatic attitudes in doing business. The Netherlands should build on these recognised advantages. In addition, showing hospitality at the government level, as the Netherlands Foreign Investment Agency (NFIA) has been doing, can also be an effective tool to attract Chinese investors that are still hesitant about a business destination in Europe.

## **Chapter 4: How are they doing?**

As a Chinese idiom goes, the starting phase of each endeavour is difficult. This applies particularly if you are starting in a different country with a different culture. In this chapter, we will focus on the main obstacles Chinese companies face during the initial stages of their business operations. How quickly they adjust to the new situation and deal with any difficulties that come their way, depends on the overseas experience of both the manager and the parent company.

### *4.1. Business plans*

Many Chinese companies that come to the Netherlands do not have specific business development plans. They may have a general idea about what they want to do, but there seems to be a general lack of actual planning. Chinese companies believe that although business plans might be highly desirable, they should forge ahead even without well-researched plans.

An SOE Chinese manager who set up a subsidiary for his parent company in the Netherlands in 2015 talked about his first customer in the Netherlands.

Our first customer is a very simple case. It's a coincidence. It is like you are walking in the street and meet an acquaintance. He (the acquaintance) told me he wanted to do something, and we could just do it for them. The deal was made as such. (1)

After about two years of trial and error the manager reflected that in the past he had spent too much time on small projects that cost a lot of energy but did not yield sufficient profit. "We should concentrate on certain big deals and let go of those small ones" he remarked.

Many Chinese companies operate according to the principle of "the front asking for ammunition." This means that the subsidiary leads the way, while the parent company provides support and follows. The same holds for making future plans. In another case, when asked what her company's goals in five years were, a POE's CEO told us:

Actually, the objectives of the company are not something that you could predict in words, by saying how it should go. It is a gradual process. When the company develops to a certain extent, it would be difficult even if you do not want it to develop further. (18)

In both cases, we can see that the Chinese companies act by responding to a situation rather than take matters into their own hands. However, this kind of business behaviour does not mean that Chinese companies do not have any plans. Most of them do have plans, but they know the plans are just plans. They are subject to change, and the managers are prepared to make these changes. A joke told by a SOE manager illustrates this. The manager had arranged a trip for his business partners to visit his parent company in China. He had made a detailed plan, down to the hours, but when the actual visit occurred, "everything had been changed."

It is worth noting that there are pros and cons to not having detailed business plans. Interpreted positively, it means a high degree of flexibility. It allows the company to both adapt swiftly to the customer's needs on the spot and quickly adjust plans at the right moment. According to a business consultant:

The Chinese are smart. If they felt it was wrong to say something this way this time, they will change to another method next time. If language is not a problem, they can adjust their plans on the spot during their discussions with their customers. For instance, if a Chinese company found that his customer wanted cups during a business meeting, he would say immediately that “we can make cups and we can do it very well.” However, in reality, he does not stock any cups at all.

On the contrary, besides pragmatic considerations, what makes the lack of business plans problematic is also the standards of business taken for granted in the Netherlands. As a business consultant put it:

The biggest obstacle Chinese companies faced when they came to the Netherlands is they could not state clearly what they wanted to do here... You cannot say you can do anything, because the others would think you can do nothing. You appear unprofessional.

If being professional is defined as having clear expertise in a specific area and stressing that particular strength by a well-designed system of marketing and branding measures, many Chinese companies do appear unprofessional. Theirs is a way of fumbling ahead, surfing and adjusting themselves to the tides, rather than defining a destination before rushing into the water.

#### *4.2 Cost of operation*

##### Case study: Business plans

V2Future is a start-up company. Its founder and CEO, Mr. Fan used to be a senior manager at a large Chinese company, also in the Netherlands. In 2013 he quit his job and established his own company with several partners. At the beginning, Mr. Fan thought he and his partners could help Chinese companies to develop themselves in Europe. They thought they could provide valuable handles as they all had successful experiences of helping Chinese companies in exploring western markets and they were familiar with both Chinese and Dutch (European) local business cultures. However, after two years of trial and error, he discovered that potential Chinese investors were not willing to pay for such services. In other words, he had a misconception of the market.

We visited 100 to 200 entrepreneurs of all different scales, talking to their CEOs and founders. We told our stories and strategies. ... Upon hearing our stories, they all acknowledged that we had value, and showed willingness to let us help them or use our services. However, they didn't want to pay. So, we realised that our business plan had problems. ...The companies that are really willing to invest and are able to sustain its development are rare. Most Chinese companies are holding an opportunistic attitude. They just want to give it a try. If they succeed they will continue, if not they will go, so they do not want to invest at the preparation stage. This is what we did not expect at the beginning ... However, we could not earn any income in such a situation.

Having little income, but huge costs, some initial co-founders left the company. However, since 2014, Mr. Fan found another way of generating income and this way proved to be

successful in 2015. The company helped famous European brands with their online marketing in China based on Chinese internet platforms like baidu.com.

When European companies are willing to pay for Baidu, they will also pay for Tencent and Alibaba. For European companies, all sorts of (business) services have value, but Chinese companies have not reached such a level.

In early 2016, when we interviewed Mr. Fan, his company had redefined its business plans and found two new directions. Firstly, the introduction of Chinese high-tech products to Europe, such as unmanned aerial vehicles and virtual reality products, and secondly assisting European companies to do business in China from Chinese internet platforms, such as Baidu and Tencent. Meanwhile, the company's website is undergoing a complete overhaul in response to the many changes to its staff and business activities since its incorporation four years ago.

As this case study shows, many Chinese investors feel reluctant to spend money on market research prior to their arrival in the Netherlands. Saving costs on "intangible" business services is probably a legacy from the poor old days. For some companies which arrived in the Netherlands in the late 1990s, the most vivid memories often revolve around the huge price differences between China and the Netherlands. A POE financial manager, whose parent company manufactures electronic equipment, recounts stories of their initial team that arrived here in 1998.

When they first arrived here, they felt everything was too expensive. I remember that the first group of people arrived here in 1998 or 1999. That year's spring festival, including Christmas, they had meals together on a table made of batteries from our storage. They were even reluctant to buy a table ... Just think about the Chinese domestic living standards back then and what was it like here. In the last 10 years, the prices here haven't changed much, but in China they have jumped ... I can accept the prices here now, but for them everything was too expensive.

About ten years later, a Chinese high-tech firm, doing sales from the Netherlands to the whole Europe, had a similar experience. Its parent company is a joint-stock company; its biggest shareholder an SOE. The general manager we talked to was the one who had set up the Dutch subsidiary. He looks back at when he had just arrived in September. (11)

When we just arrived here, we were in such a poor state that we did not even have a car. Our company's first purchase was five bicycles. Hahaha...All Chinese companies are thrifty. In the past, when we had a business trip overseas we were really thrifty. We took metros and busses, carrying big suit cases. Even calling for a taxi was not easy. Now things have changed. We have about 200 employees and everyone gets a company car.

Nowadays, most Chinese companies that try their luck abroad are in much better financial shape, and the cost of running a business in China and Europe is getting closer. However, saving costs at the market research stage is still common practice for many companies.

Our interviews showed that POEs tend to be more thrifty than SOEs. Supported by government, SOEs are believed to have more financial resources. While SOE managers may

have felt more indifferent towards costs spent abroad, as long as the budget allows, POE expats sometimes had to make everybody contribute if need be. SOEs also do not generally accept makeshift solutions, such as second-hand furniture, probably to safeguard their “dignity.”

#### *4.3 Lack of experience*

Of the general managers we interviewed, most said that uncertainty and perplexity were the dominant experiences they felt when their businesses first started doing business in the Netherlands. In some cases, parent companies had little experience of operating internationally. The following quote is from a general manager whose subsidiary was the second one its parent company had set up in the world and the first one in Europe.

When I just arrived here I was only 27 years old. I didn't know anything then ... At that time few Chinese companies were operating abroad. Our boss was like ... he threw us all in the sea: “swim!” If you can swim across the river and reach the other bank you survive. If you drown, you are dead. We had great freedom then. Nobody inside the company had experience, so we had to rely on ourselves, fumbling ahead. (11)

Many Chinese companies reported a lack of experience at the initial stages, but the kind of experience they were lacking varied. A POE manager told a tortuous story about how their parent company found a location for its subsidiary. The parent company in question wanted to invest in the Netherlands and they were contacted by the South Netherlands Investment Agency and invited to locate their business somewhere in Limburg. However, only upon arrival did they realise that the place was close to the Belgium border and “too far away.” Therefore, they changed their plan and opted for the Randstad. “We mistook South Holland Investment Agency for the West Holland Investment Agency.”

However, lacking experience could also lead to unintentionally violating labour regulations. In one case a manager hired student-interns without applying for work permits. However, their accountant did send tax returns for the interns to the tax office. On reflection, the manager remarked:

I didn't know how things work here myself. If I had been aware of it, I would not have needed to use them (the local business services). However, it is also a question of habit. In the past years, we did not pay much attention to regulations in China, but it is the most important thing in the Netherlands. However, we have no solution. We had no ability to pay attention to these issues as we do not know what we do not know. Sometimes, it was just because we tried to do everything clearly according to the law, that we exposed all our faults.

Indeed, almost every Chinese company we interviewed stressed the importance of learning the local laws and regulations and named compliance as the first and foremost key to success. However, due to little knowledge or lack of common sense there are consistent worries about unknowingly violating the rules.

When asked if they had asked for advice from other Chinese companies or some Chinese company associations, this manager said “we did and they told me it's all about luck.”

#### *4.4 Temporalities*

Chinese companies often experienced culture shock revolving around different conceptions of

time, pace and rhythm. Because of the Dutch habit of planning schedules well ahead of time, the most frequently encountered problem for Chinese managers is making appointments, as illustrated by one of our interviews below.

Schedule and planning are really difficult for the Chinese. Between Chinese people, if we are in a good relationship we can call each other and make the appointment immediately. However, the foreigners (the Dutch) think “you need to make an appointment in advance. Otherwise please do not talk to me.” At the very beginning I really could not understand. I am your customer, do you really want to do business with me or not? All these showed different ideas and customs in China and the West. However, when we have lived and worked abroad for a while, we discovered that all these are just natural.”

Another common problem is the separation between work and life. In many cases, the life of Chinese managers is not ordered by a standardised working schedule. They have to arrange their life around their work and tend to continue working after office hours. However, seeing that their local employees would not be willing to work a split second longer than their contracts require, the managers sometimes become desperate. For one thing, the parent companies may still expect that the speed of work of the subsidiaries complies to Chinese norms. How could that be possible without the cooperation of local employees? For another, it is considered impolite in China or even disrespectful to leave the office before your boss. Although knowing that they could not expect this subtle cultural conformity from their Dutch local employees, it proved difficult for the Chinese managers to switch off their emotions.

Even more serious confrontations revolve around the rhythm of life and business throughout the year. A case in point is the time for end-year financial report. Christmas and New Year’s Eve are the most important holidays of the year in the Netherlands, while in China this is exactly the moment when most companies are crazily busy finalising their annual financial reports. The most significant holiday in China is the Spring Festival, which is about two months after the Christmas. An SOE’s CFO:

As a listed company, working overtime during Christmas and New Year is so normal (for us), because we need to publish our external report. However, it is so difficult to ask our Dutch employees to do this in the Netherlands. It is not as if we would like to pay extra for the overtime that they would be willing to work. They want to put their families first. We could also understand that. But there are conflicts in this respect.” (6)

The manager told me that they try to solve the problem by sharing the financial statistics with the head office, removing part of the functions that should be the responsibility of Dutch employees to China. As a result, the Dutch division does the routine work, while the Chinese head office deals with more intensive work and deadlines. However, the expat Chinese managers are not always very content with such a solution.

When we share some financial statistics, we can only read the numbers. But what are the things behind the numbers? We still need local employees to explain them.

Moreover, different concepts of temporalities bring different paces. A Chinese subsidiary

wanted to move office within an office building for rent in Rijswijk. According to him, eighty percent of the building was empty due to the declining economy at the time. However, they had to wait for more than a month simply to get an initial price offer.

Desperate about “Dutch speed,” the manager remarked:

This building’s employees should not have much to do. They only have a few renters. How could such things happen?! ... I think the Netherlands lack stimulating measures. It’s the same regardless of whether you work more or work less. It is a serious problem. Even our own salesmen do not respond to incentives.

Many Chinese companies participate in all sorts of business events to build networks. They try to visit potential business partners and are constantly adjusting their plans either upon the requests of the customers or based on their sharp observations during meetings. The parent companies mostly evaluate the subsidiaries by their financial results and give them all the freedom to explore different measures in order to achieve the goal. However, the path towards “localisation” as aspired to by almost every Chinese investor proves to be long and cumbersome.

The obstacles Chinese companies encountered are not confined to the initial stage. Many of them perpetuate the whole period of their business operation in the Netherlands. Some of them were transformed into critical incidents. Those events that companies identified as critical manifest not only the most important experiences they had in the Netherlands but also reflect the values and norms underneath their business operations. Therefore, in the following we are not only going to describe those critical moments but will also try to interpret why they are perceived as significant.

#### *4.5 Improvement of organisational skills*

Improvement of organisational skills mainly means bringing local Dutch managers with international experience on board. With their help, companies start designing and executing external development strategies as well as internal operating rules. This is often remarked upon as a new stage of a company’s development in the Netherlands.

For most Chinese managers, good management means planning and control, which are regarded as the hallmark of modernity. As mentioned, Chinese companies come to the Netherlands often without systematic planning. In fact, they are not so much proud of their own flexible ways as they are admiring the assumed Dutch measures of thorough planning.

A POE manager attributed the employment of a Dutch manager who had worked for Sony as a critical moment in his company’s development and cited an obviously well-known joke among Chinese managers. The joke is about the European version of life in heaven verses life in hell.

The European version of life in heaven is a British policeman, an Italian girlfriend, German cars, French food and Dutch management.

Really? The Netherlands are so strong in management?

Sure ... And the European version of life in hell is when you have a German policeman, a British girlfriend, Italian management, French cars and Dutch food. .... The Netherlands is very famous for its management. The

Dutch level of management also tops the whole of Europe.

What the manager refers to as good management is actually all about developing long term plans. According to him, the European market is different from the Chinese market in reaction speed.

In the Chinese market, you adopt some adjustment this week and the next week you can see some effects. However, in the European market, you implement an adjustment today, and you have to wait for half a year to see some impact.

That is why planning skills, making best-scenario plans and alternative plans, are extremely valuable in the European market, he explained. The same manager believes that in the Netherlands a whole team of employees can work as a precise instrument with good plans and management. In comparison, in China, everything is too flexible and changing too fast, so that planning cannot show its value. As an expression goes “the plans cannot catch up with the changes.”

#### *4.6 Business expansion*

Almost all interviewed companies mentioned the moments of business expansion as critical junctures, for instance, the introduction of new products, projects or markets, as critical. What makes Chinese companies in this respect special is the rapid speed. The number of Chinese companies in the Netherlands has increased from 20 or so in 2000 to 315 in 2015. Its gross investment in tangibles doubled in just three years from 12 million in 2011 to 25 million in 2013. For instance, one company established a subsidiary in Italy in 2012 and due to the success it achieved there, it immediately set up daughter companies afterwards in Poland, the UK, France and Spain in 2014. “Looking back, people all say ‘wow, so fast!’ But it is actually the speed of Chinese companies” remarked the manager.

Indeed, rapid growth is widely considered as both a necessity and a norm. For one thing, fast growing is still the norm and the expectation of parent companies towards subsidiaries. “Our company has experienced 13 to 15 years high-speed growth and maintaining that growth creates a comparatively high pressure environment in which we now find ourselves” a POE manager asserted. The solutions are “new products, new fields and new customers.” However, after some years of fast growth one has to explore new markets or develop new products to sustain that rate. One thing worth noting is that the Netherlands has rarely been the main target market for the expansion, except in a few cases when the parent company has regional management plans and the subsidiary is supposed to perform only within its allocated region.

Rapid development is also considered necessary. As we mentioned before, the cost of operations in the Netherlands is high. If one does not make sufficient profit quickly enough, one cannot survive. Moreover, rapid economic or market gains indicate successful strategies, legitimating the existence of the subsidiary. This is especially true for small or medium-sized enterprises.

#### *4.7 Business events during political ceremonies*

Third, many Chinese top managers proudly mentioned the presence of prominent politicians

during their business events. For instance, joining the delegations of King Willem-Alexander and Prime Minister Mark Rutte's trade missions to China are considered as highly honourable as well as profitable. Contracts or MoUs signed during these visits are often mentioned as critical moments for the company.

There are pragmatic as well as cultural reasons for such evaluations. For pragmatic considerations, the presence of political leaders bring credit to the companies, boosting their image in both China and the Netherlands. As a result, they hope that this will strengthen the company's chances of getting Dutch government projects. Another manager acknowledges that joining two visits of Dutch high officials to China in 2015 helped him in signing a contract with an important Chinese client. "We have been talking about collaboration with the customer repeatedly since 2014, but were not getting anywhere, for various reasons", recounted the manager. The company in question was rather new and had not established a good brand-awareness in China, so its manager organised promotion activities during the high-official visits, with obvious effect. Royal and government authorities represent power and trustworthiness in the public domain. Individual managers would also feel honoured to be seen in the presence of such public figures.

Cherishing the attention from the authorities is an important feature of Chinese companies in general and has clear implications for Dutch policy makers as we believe that political ceremonies in the honour of Chinese companies can encourage more investment.

#### *4.8 Legal disputes*

Fourth, several companies gave examples of legal disputes as critical incidents they encountered during their operations. These disputes could be law suits against business partners, negotiations with the tax office and even thrilling encounters with the police. They encountered these problems either due to lack of experience, or by being implicated in other company's activities. Many companies fear that they might violate laws and regulations simply out of ignorance. A lot of Chinese companies come to the Netherlands without a thorough understanding of Dutch rules and regulations. Moreover, their common sense does not work either, since what is common in China could be extremely weird in the Netherlands.

The following lawsuit of several million Euros is a case in point. A Chinese freight forwarder helped one of their Dutch customers to clear customs. Both the Chinese company and the Dutch customer did not know that some of the cargo was subject to a special tariff. Therefore, the forwarder did not fill in some detailed features of the cargo in question on the clearance file. The Chinese company defined it as an omission out of ignorance but the customs office found out and someone had to pay the fine. Thus, the Chinese company and a Dutch customer were involved in a lawsuit in order to determine who should be responsible for the fine. In the end, the Chinese company won.

Both of us [the Chinese company and the Dutch customer] have learned a lesson from this case, so we will do things more cautiously in the future. Of course, ultimately, we did not pay the "tuition fee" [the fine], but we still paid the lawyer fee. It is worth it... We paid the tuition [legal fee] and have learned from it. We will not make the same mistake in the future.

Indeed, obeying the rules as the key to success is repeatedly emphasized by our Chinese managers during interviews. We can argue that it is partly because the Dutch markets (and

Europe in general) are regulated differently compared to what Chinese businessmen are used to in China. Playing by the rules is a must, and trying to take full advantage of it is a rather new sport Chinese companies are learning every day. This is considered extremely important either because the risks of violating the laws or when a company grows bigger the benefits of choosing the right rules can bring tangible benefits. As a manager at a company that sells electronic equipment and has experienced constant and rapid growth in the last seven years commented:

When we evolved into a bigger company and established subsidiaries in other places, we had to consider establishing a holding company. At this time, the Dutch cooperative, a special mechanism, turned out to be advantageous. This is a unique system in the Netherlands allowing exemption of tax on dividends.

#### *4.9 Conclusion*

The four types of critical incidents given by Chinese managers reveal important characteristics of Chinese companies and reflect the norms and values they share. Many Chinese companies lack the organisational skills of running an international company. Their parent companies demand rapid growth, seeing it as both a norm and a necessity. Chinese companies value authority represented by high political and royal figures for both pragmatic and cultural reasons. Moreover, many Chinese companies are not familiar with Dutch rules and regulations. Particularly in the first few years in the Netherlands, many of these characteristics pose challenges to the Chinese firms that require them to take further steps towards the localisation of their operations.

## Chapter 5: Challenges of localisation

Localisation is considered a must by most Chinese companies in the Netherlands. Depending on their specific businesses, the majority of Chinese companies try to employ Dutch local employees and use Dutch banks, legal services, business consultants and accountants. Some of them have also harnessed local marketing and promotion services. In short, using local people and services to develop local business is a formula to success, which they all stand behind. An SOE manager used a fishing metaphor to explain this. According to him, there were four stages of his company's business development: rod-fishing, net-fishing, fish culture and global operations. Rod-fishing represents an opportunistic attitude, when the fisherman does not know where the fish are located. Using his own words: "If I can sell, I sell. If I cannot sell it here, I switch to another place." Net-fishing is about building a sales network, knowing one's target market and having channels to reach that market. In the third stage, fish culture means further building one's sales channels and creating loyal customers by supporting them with a whole system of after-sales, product development and marketing. The last stage, global operations means "localised research, localised purchase, localised operation and localised financing." These four steps outline a movement from the acceptance of serendipity to control.

This trajectory of development is surely not easy to follow. One interviewee, a Chinese expat manager of a high-tech company, said that he was under a lot of pressure.

Especially when the company needs to develop at such a high speed. On the one hand, the Chinese parent company has a requirement, namely you have to be fast in everything. They are used to high-speed growth. On the other hand, as the manager you need to combine the parent company's requirement with your local situation. We all say, it is not easy to be a manager of our company but it is even more difficult to be the overseas manager of it.

The manager's words highlight two main challenges that most Chinese subsidiaries are facing in the localisation process. First, how to attract qualified local employees and integrate different cultures and norms within the subsidiary so that it can run efficiently. Second, how to deal with a demanding parent company.

### *5.1. Recruitment*

The first challenge on the path to localisation is to find the right local employees. This proves to be especially tricky for smaller companies and newcomers. On the one hand, the specific talents they need can be rare in the Netherlands. For instance, a manager stated that his company needs someone who can deal with multiple tasks at the intersection of law, accountancy and finance, since as a small subsidiary in the Netherlands they have to deal with the different departments of their very large parent company. He feels, the Dutch employees are often trained in a specific area but cannot deal with multiple tasks. Another manager whose company is specialised in machine manufacturing complained that the most skilful technicians are in Germany. While another manager whose company is in tele-communication sighed that the IT sales and marketing is a newly emerging area and that he could not find suitable Dutch employees in this field.

On the other hand, some Chinese companies observed that the really talented people do not

always like to work for a Chinese company. This is not only true for Dutch people but also for Chinese graduates. A Chinese company had its director's position vacant for almost two years before an experienced manager could be found to take the role. Another Chinese manager shook his head and said they rarely have talented people with working experience sending their CVs, although he thinks that the company offers competitive salaries. However, the situation can be very different for specific Chinese companies. Whereas well-established companies such as Huawei have already organised recruitment events and nurture potential talents with their seed-projects, small enterprises are often still relying on Chinese websites such as gogodutch.com to spread the advertisement for enrolment.

Nevertheless, a general trend of hiring more Dutch local employees is discernible. In some cases, with a hundred or so employees, only the three top managers are from China and the rest are almost all local Dutch employees. Local knowledge is considered extremely important in achieving success. Moreover, the Dutch faces symbolically contribute to the company's international profile, as images of white and blonde local employees are extremely popular in Chinese companies' promotion materials.

However, the symbolic function of the employees is more of a plus rather than a necessity in job-seeking. Some of the managers stated that they do not care about the nationality of the employees, as the talent and abilities are the most important issues at hand. Some others, after several failed experiences with ethnically Dutch employees, tend to hire local Chinese employees or try to find Dutch employees who might be able to adapt to the Chinese way of working from those who might not during the interviews. When hiring Chinese local employees, either Chinese graduates from Dutch universities or Dutch Chinese are preferred. Dutch Chinese have the advantage of speaking both languages, and Chinese graduates know Chinese culture and can be expected to accept a Chinese working style. For Dutch job-seekers, speaking Chinese is an advantage, but what is more important is their expertise, network and work experience.

### *5.2 Integration & HR management*

Localisation brings problems of integration, which manifest themselves acutely in both M&A and greenfield investment cases. Transnational companies are necessarily composed of employees of different nationalities and cultures. Cultural and organisational differences can trigger practical problems, as we have already discussed in the case of different conceptions of time, speed and urgency. Moreover, China's general image as a country producing cheap, low-quality products and politically lacking democracy and human rights contribute to the overall negative impressions of Dutch and European societies towards China.

Integration problems show themselves most conspicuously in the M&A cases. There may very well be considerable solidarity among the original employee's management team, which may even resist the new owner. When Chinese companies purchase a foreign company, they tend to keep the original managing team intact. In fact, the organisational skills and systems are regarded as an important asset of the company. Both of our interviewed cases revealed that Chinese expat managers sent by the Chinese parent companies were not even taking a hands-on leading role of the subsidiaries and were content to let the Dutch management lead the business.

The first case that we investigated was originally a North American company. The Chinese expat manager, who took on the role as deputy CEO told us that;

Our employees might feel proud when they were working for the famous North American company ... Even if they had stopped working for such a company it would still look nice on one's CV ... The famous North American company has a golden aura. It is easier for them to accept an American company than a Chinese one. When it was taken over by a Chinese company, there was a bit of a psychological gap that they had to overcome.

However, according to the Chinese manager, the company is running well and the internal relationship is reported as harmonious, due to the "tolerant and inclusive attitude of the Chinese parent company" in addition to the "professional attitude" of the original managing team.

To boost morale, the Chinese manager promoted the parent company within the newly-purchased subsidiary. For instance, achievements and developments at the parent company were widely disseminated. Additionally, competitions among different subsidiaries were organised, in which the Dutch team also participated and won prizes.

In the second case, the integration process appeared to be even more difficult. The company itself had been growing rapidly since the acquisition, according to our interviewee "from a profit of 5 million to 8 million in 2011 and 2012 to more than 20 million in 2014 and nearly 50 million in 2015." However, the original managing team strongly resisted the Chinese management, not allowing the expat manager to be part of the top managing team. Since the purchase, some key managers had to be changed. The CEO was dismissed upon his own threat of resignation. The CFO was fired because he did not want to share the full financial report with the parent company. The CTO (chief technology officer) retired and the parent company put a newly employed European employee in charge of international purchasing. After these personnel changes, the conflict calmed down, on the surface at least.

In a half joking, half self-pitying way, the Chinese expat manager who was appointed as the Chief Compliance Officer told us: "We can also look at it from another perspective. If a famous Chinese company would be taken over by a Cambodian company and a Cambodian manager would be sent to manage the Chinese team. Would the Chinese listen to him? Definitely not."

But not all interviewees resigned themselves so easily to the lowly position of China on the hierarchy of nations that this implies. A manager who felt that he was treated as "someone from the Third World" by Dutch colleagues said: "They [Dutch colleagues] should have changed their mindset. If they look at how the situation is now, [we] should be a bit higher than them, in terms of both income and expenditures." By the same token, another manager compared the advanced technology used in China and the comparatively old-fashioned Dutch situation.

I talked about our AliPay online payment system and they [Dutch colleagues] had never heard of such a thing ... I told them all sorts of things that I can manage using AliPay and my Wechat wallet. I can buy movie tickets, pay my utilities, etc. There is no need for bills, which is just a waste of paper. Our group stopped providing paper documents a long time ago, for some five or six years now. Everything has been digitalised. However, here it is not necessarily so.

In conclusion, Chinese expat managers tend to deal with the challenges of integration within the purchased subsidiaries in three ways, namely great restraint and tolerance; constructive

interference; and patience to achieve a change of ethos. The expat managers stressed that the attitude the purchased company has towards the Chinese buyers are not independent from how the Dutch society in general look at China and Chinese investors, but hope that with the further rise of the Chinese economy things may change.

### *5.3 Managing international teams*

How to manage an international team is another important issue confronting Chinese managers. Most of our interviewed companies are composed of Chinese expat managers, local Chinese employees, Dutch employees, Dutch Chinese employees as well as other internationals. How to build solidarity, balance different needs and expectations, reduce conflicts and misunderstandings are critical for the smooth running of these Chinese multinationals.

In a bad situation, the relationship between Chinese expat managers and their local Chinese employees could be intimate yet coercive, while the bond between Chinese expat managers and their local Dutch employees are often polite but distant. Chinese employees may feel discriminated against. Due to culture affinity, Chinese employees tend to form a more intimate relationship with their managers. While this relationship might enhance the mutual understanding between managers and employees, it could also be exploited, transforming into an authority-subordination or parent-child model of communication. Thus, Chinese employees tend to have a higher work load, work overtime more frequently and are often criticised ruthlessly. In short, Chinese managers tend to assume that Chinese employees succumb easier to the command-style management methods. However, eager to represent themselves as benevolent managers to the Dutch “outsiders,” the Chinese managers often adopt a totally different way to treat their Dutch employees. Therefore, the Chinese employees tend to feel discriminated against in the company.

However, Dutch employees may feel alienated. Many Chinese employers state that it is more difficult to make Dutch employees follow their commands. They tend to ask why and since Chinese managers do not often require a reason to carry out plans designed by their superiors, they cannot always provide a convincing answer for the Dutch employees. Moreover, sometimes things taken for granted by the Chinese employers and employees alike are regarded as weird for a Dutch employee. For instance, a Chinese manager may hope his or her employees embrace the “self-sacrificing attitude,” meaning giving up personal interest for the collective wellbeing of the company. Indeed, the managers themselves may be willing to work overtime and to be called by the Chinese parent companies at any time. Although it might be widely understood by Chinese employees, the Dutch employees are not used to this way of thinking and behaving. In fact, supposing that Dutch employees are different, the Chinese managers have often also given up the expectation that they will comply to the Chinese way of doing things.

Language plays a role here too. It is not that Chinese managers cannot express themselves in English, but most of the time their English is not good enough to convey subtle meanings so that their employees would read between the lines. As remarked by one of the interviewees, a Chinese leader rarely gives opinions in a straightforward way. This is the Chinese way of management. The leader will not say “yes, I agree”; or “no, I disagree.” He would say, “I am not against it, which means you can try.” This way of giving orders might be challenging and frustrating for the lower managers. If they succeed, everyone is happy, but if they fail only they are responsible. While a manager could still use this way of management with Chinese

employees, the Dutch would not grasp the subtleties. Therefore, the expat managers must translate the subtleties so that they are clear for their Dutch employees. All this tends to make Chinese expat managers feel it is very difficult to communicate with Dutch employees, which leads to the alienation of Dutch employees within a Chinese company.

Dutch Chinese are between these two groups and may in fact get the best of both worlds. Their Chinese faces and Chinese language fluency bridge the distance with Chinese expat managers. However, their Dutch cultural and language dexterity can protect them from the coercion that other Chinese employees may suffer from their Chinese managers.

#### *5.4 Tension between subsidiaries and parent companies*

We can never fully understand the challenges Chinese companies are facing without a thorough comprehension of the tension with their parent company regarding information, communication and expectation. First of all, the parent company is very eager to know how everything develops in the subsidiary when they give enormous freedom to the subsidiary. This is especially true at the initial stage. The parent company may often require from the expat managers that they come back to China to report on their work. However, the expat manager also has tremendous on-going issues to deal with in the Netherlands, so they often feel they have to split into two persons in order to fulfil the requirements from both sides. Moreover, subsidiaries must keep effective communication with the parent company, especially when there are internal collaborations involved. In this case, the tension exists not only between expat managers and the parent company but could also embroil local employees. The Chinese parent company, especially the SOEs, are often still operating under Chinese business norms and regulations that the Dutch employees either do not know or are not willing to follow. If that is the case, the expat manager needs to teach the local employees how to deal with the Chinese bureaucracy.

The Dutch have such a character that they say what they think and they are not afraid of offending you ... But our business activities have much to do with our domestic departments ... Therefore, the Dutch employees have to communicate with our Chinese staff in China directly. Which way do you use? How to formulate a request? What kind of communication could be effective? We [the expat managers] have to teach them.

In the Netherlands, it might be very normal that one's colleagues and friends are completely different groups of people. However, in the Chinese context, personal intimacy is expected within the working relationship. In the same light, purely work-related requests sometimes need to be formulated in a way of personal favour. From the case below, we can see that the question was about giving a cheaper price to a customer but this business request was interpreted as "asking for a favour" between the subsidiary and a department of the parent company. Since it is easier to settle something with an acquaintance, according to the Chinese norm, good personal relationships with internal business collaborators are crucial to fulfil business tasks.

#### *Case Study: learning communication, Chinese style*

A Chinese manager leads a team of Dutch employees who need to collaborate with different domestic departments of the parent company. He talked about his experience of imparting Chinese ways of communication to his Dutch employees.

Once, someone [a Dutch employee] told me "I have sent five emails in three consecutive

days [to a certain department of the parent company], but nobody has replied.” Right, surely there is nobody who will reply to you. For one thing, they may not know you. This is because you are not contacting each other in daily life. You only contact someone when you want to ask for help. In China, we say you are not sincere, right? Moreover, maybe the way you said it is not appropriate. This is also possible ... For instance, you want to apply for a special price for your customer. The normal price is 1000, but you want to ask for 950. This is asking for a favour. How should you say it? If you say directly “Hey, this cargo needs to be [shipped] at 950, otherwise our customer will not let us ship it” the other party does not want to hear it: “Who cares! It’s just one container.”

You have to approach it another way, you have to tell them that this is our long term customer. If you give them 950 this time, there might be more containers next time. So, your purpose will be achieved. However, the Dutch employees may not adopt the second method, so we have to teach them.

When asked when the two parties are both working for the collective interest of the parent company such a tension still exists, the Chinese expat manager answered “Although it is for the collective interest of the company as a whole, there are differences between partial and collective interests. After all, we have to complete our work targets.”

The basic principles the Chinese manager conveyed in the case above could be interpreted along three points. First, personal relationship can help tremendously even in internal business collaborations. Moreover, one has to formulate a request politely in such a way that one offers the superior position to the internal collaborator. Furthermore, there could be competition or even a conflict of interests among different departments of the parent company. If one does not know how to deal with things tactically, the subsidiary will be confronted with bureaucratic indifference.

Finally, the tension between parent companies and subsidiaries can also be traced to the high expectation of fast growth that the Chinese parent companies have towards their subsidiaries.

Rapid business expansion is considered as both a necessity and a norm by many Chinese companies. A Chinese POE manager, whose company came to the Netherlands in 2014 told me that she understood the requirement of her parent company: they are not so much in a hurry with the profit as they hope to see tremendous growth in the amount of business. To deal with that expectation, she tried to make mid-way plans, which somehow satisfied the ambitions of the parent company, but in the meantime guaranteed the healthy growth of the subsidiary. “I do not recommend doing things that resembles killing the hen that lays the golden eggs”, she said. She contrasted their long term vision to the opportunistic plan of one of their Chinese competitors, who came to the Netherlands earlier but failed as being “too short-sighted and without a proper investment in the professional managing team.”

### *5.5 Conclusion*

Localisation is regarded as the approach Chinese companies have to follow as they emerge on the global stage. However, localisation is not easy. Recruiting qualified local employees who would like to embrace or at least tolerate business operation with Chinese characters is a challenging endeavour. Integrating a purchased Dutch or other foreign company into a Chinese system needs tremendous patience. Reconciling sentiments of discrimination and exclusion from Chinese and Dutch local employees respectively requires constant shifting between two cultural contexts. Coaching Dutch local employees in some basic Chinese

communicating skills costs energy. Demanding parent companies tend to interpret the “slow motion” of Dutch subsidiaries as hopeless and may quickly divert their not-so-fixed plans in the Netherlands to other projects. Despite all these difficulties, when asked if their original purposes have been met, most of our interviewees replied positively. They often attribute their success to flexibility, determination, good luck, freedom given by parent companies, charisma and intelligence of individual managers, as well as the general trend of the rise of China.

**Chapter 6: What will they mean for the Netherlands?**

Before 2008, China had invested on average less than USD 1 billion in North America and Europe respectively. However, the combined value of Chinese acquisitions and greenfield projects in these two high-income economies added up to a total of USD 40 billion (Baker& McKenzie, 2016) in 2015. Since the Chinese newcomers seem powerful but are largely unknown, many fears have been triggered by their arrival. Elaborating on who they are, why they come to the Netherlands and how they are progressing, we hope that we have provided a more vivid picture of those Chinese companies to our readers.

What will the arrival of Chinese companies and investment mean for the Netherlands? In fact, if we look at economic figures, the impact is still modest at the current stage. In 2013, Chinese companies’ gross investment in tangibles was roughly 25 million Euros, whereas that of Japanese companies in the same period was about ten times higher at 238 million Euros. Similarly, Chinese companies’ turnover in the Netherlands was about 2 billion Euros in 2013, equivalent to merely one-seventeenth of the Japanese figure of that year. Furthermore, Chinese companies’ investment in R&D is on the rise, from 8 million in 2011 to 12 million in 2013, but it is still more than ten times less than that of their Japanese counterparts. In addition, Chinese companies hired 3,718 employees, spending some 228 million Euros on personnel in 2013 in the Netherlands, which was about one-ninth of the employment generated by Japanese companies. Moreover, the total sum of turnover and the median turnover of Chinese firms are still significantly low compared to Korean and Japanese counterparts.

*Table 2: Turnover and labour productivity of Chinese, Korean and Japanese firms*

	Total turnover (billions of Euros)	Median turnover (Euros)	Labour productivity (Euros per worker)
China	1.69	355,000	78,020
Korea	2.86	1,516,000	117,940
Japan	33.15	6,416,000	100,180

Source: CBS microdata

However, the picture is changing fast. Concerning employment for example, we can see a sharp increase in the number of employees from 2,500 to 3,718 from 2011 to 2013. Although Chinese firms are much smaller in size, they have already created more jobs locally than Korean firms. Chinese companies do not provide much R&D employment yet but their R&D functions are growing steadily and their share of R&D workers in total employment is on par with that of Japanese firms.

We should see the impact of Chinese companies and investment on and in the Netherlands as a process of mutual influence. The presence of Chinese investors is presenting new questions and opportunities to the Netherlands, eliciting adjustment and bringing connections. In other words, the coming of Chinese companies to the Netherlands has brought the learning process about a rising new power right to our doorstep. The encounters with Chinese companies will help the Netherlands better position itself vis à vis China in the future. Furthermore, most Chinese companies come to the Netherlands to learn. By learning and adapting, Chinese

companies will become both stronger and more familiar competitors in the international market.

### *6.1 Getting prepared for the new power*

The interactions with Chinese investors prepare the Netherlands for the upcoming new power of China in many ways, namely infrastructure, service model, communicating effectiveness and business connections.

In the last ten years, KLM alone has introduced thirty-two flight destinations to China,<sup>12</sup> collaborating with various Chinese airlines. A Chinese manager, whose company often sends its technicians and salesman back and forth between China and the Netherlands cited a joke told by an NFIA officer that one of the KLM lines was opened especially for his company's "transhumanism." Moreover, being eager to connect itself to the Belt and Road Initiative, the Port of Rotterdam Authority has been working on "a value proposition and a structural rail connection that begins and ends in Rotterdam."<sup>13</sup> These are physical connections built between China and the Netherlands which can direct both people and cargo to the Netherlands, the "Gateway to Europe."

Besides these physical connections, by collaborating with Chinese enterprises, Dutch products and services have enjoyed a rather easier access to the Chinese market. In one of the M&A cases we discussed above, the drastically increased profits the acquired company generated came mostly from accessing the Chinese market. In our interview, we learned that before acquisition, the earnings before interest and tax (EBIT) of the Dutch company in question was at around one to two percent, and about five years after the purchase, it has risen to four to five percent. The close connection between Dutch and Chinese business sectors provides opportunities for the Netherlands to position itself strategically towards China.

Moreover, the Dutch business service sector is adjusting to the needs of their new Chinese customers. A Chinese expat manager whose company came to the Netherlands in the late 1990s told us that in the beginning Dutch law firms provided only segmented services. Every department took care of its own business without any comprehensive service. Gradually, this model has changed to one-stop service.

Now those business service providers usually have China desks. In other words, you only need to contact one person at the desk, who will help you to match your questions with their internal resources. Most importantly, talking to the China desk is free of charge. This was different from how things was when we just came here.

This manager suspected that these changes happened due to an increasing number of complaints from Chinese companies when they received "unreasonable bills." Although this may seem trivial, these adjustments come from real encounters and enhance the Netherlands' chances of attracting more Chinese companies.

Furthermore, some Dutch employees can already speak Chinese. Besides language proficiency, working in Chinese companies provides them with first-hand knowledge of Chinese culture. These people are assets for the Netherlands in coping with the new China. They will become effective mediators between the two countries. A Chinese manager said in

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<sup>12</sup> Source: <https://www.klm.com/destinations/gb/en/asia/china>

<sup>13</sup> Source: <https://www.portofrotterdam.com/en/one-belt-one-road>

great gratitude that one of his former Dutch employees called him to say goodbye when this employee was about to retire. This is what the Chinese cherish as “ganqing,” the affection that one shows to friends and kin rather than “guanxi,” which is understood as an instrumental relationship.

### *6.2 Nurturing stronger but more familiar competitors*

Coming to the Netherlands and operating in Europe, Chinese companies have come a long way in many areas. They have upgraded their products and services as well as enhanced various business skills, including planning, HR management, marketing and legal awareness. These improvements will make them stronger competitors in the international market. In the meantime, learning from the Dutch and other Europeans will also make the Chinese companies more familiar competitors.

As we have mentioned before, inexperienced Chinese companies desperately need organisational skills to run an international company. A manager whose company came to the Netherlands via a joint-venture agreement with a mature Dutch company told that they have chosen this way of going abroad, because they want to “buy the other’s management.”

After all, we have to run our business in a comparatively strange country. We are not familiar with the laws and regulations, policies and rules. We need to learn them gradually and improve ourselves in steps.

After about two decades’ collaboration, the company still keeps the original share division with its partner who does not bring in any business. He commented that “it was very much worth it.” The Chinese company integrated the organisational framework of the Dutch partner, thus acquiring valuable organisational experience.

Moreover, learning from European standards and regulations, Chinese companies are keen to upgrade their products and service standards. An SOE manager whose company sells construction machines in Europe talked about the concept of “TCO,” total cost of ownership and explained he has understood this concept much deeper since his company started competing in the European market. Additionally, the mature financing instruments in Europe made him think how similar things could be realised one day also in China. Another manager whose company sells electronic products in Europe praised the European craftsmanship of paying attention to details, referring to the spot-welding technique on batteries. In general, it is believed that the upgrading of products in the European market will drive the whole company to a higher level.

Furthermore, Chinese companies have become more aware of the importance of using professional business services. One manager took marketing as an example. According to him, most Chinese companies do not pay enough attention to marketing. They might perceive marketing as “propaganda, advertisements or showing your logo on magazines,” but tend to overlook the underlying logic, such as market positioning and price system. “When your company is young, it does not matter so much, but when you grow big, many problems will emerge.” Indeed, as subsidiaries outside of China become more aware of such a weakness, they can improve. The way and direction they will improve can be significantly influenced by their foreign “teachers.”

In addition, immersing themselves in the legal Dutch business culture, Chinese companies have also been developing stronger legal awareness. A manager whose company just finished

two law suits told that oral agreements might be valid in China, but in the Netherlands, especially in court, are useless. Therefore, she warned her Chinese colleagues that they must keep everything on paper. “Even any involvement in equity or financial cooperation must go through formal channels, preferably in the presence of a notary to make the agreement.”

In short, Chinese companies have been making progress in management skills, HR management, upgrading products and services, improving marketing and legal awareness by operating in a Dutch business environment. These improvements may cause discrepancies between subsidiaries and parent companies but will ultimately also lift the parent companies to a higher level. Chinese companies will become stronger competitors in the international stage but they will also become more familiar competitors, since by learning the techniques of doing business, they are also internalising the European practices, values and norms.

## Chapter 7: Conclusion

This report offers a reading of Chinese companies from a Chinese perspective. By exploring the complexities and internal dynamics of Chinese companies, it generates a new understanding complementary to studies that look at Chinese investment from a Eurocentric and bird's-eye viewpoint. We also offer a more realistic picture of Chinese companies' investment and development in the Netherlands. The report has followed four main questions.

First of all, who are those Chinese companies? In the Netherlands, Chinese companies congregate mainly at either the service sectors or do wholesale and retail businesses. Only a small percentage of them are doing manufacturing related activities. During business operation, they reveal a loose organisation and strong adaptability. They are comparatively young and inexperienced but a seemingly modest start should not obscure their great potential for rapid growth. Moreover, although SOEs account for a substantial share of Chinese FDI flows and stock, many Chinese companies in the Netherlands are not particularly proud of the SOE nature, because government background brings unfavourable connotations in the European context.

Second, why do they choose the Netherlands as their business destination? Chinese companies come to the Netherlands mainly to explore the European market. Commercial and personal concerns drive them out of China which resonate with the call of the state to "go out." The Netherlands is especially valuable for them because of its favourable business environment, including tax regulations, high quality business services, safe and stable society, well-organised government, connectedness to other European countries, national English proficiency, and pragmatic attitudes in doing business. Moreover, some emotional connections, for instance the hospitality shown by the Dutch government can also positively influence those investors who are still hesitating.

Third, how are they progressing in the Netherlands? Although localisation is considered a sure path in the globalisation process of Chinese companies, it is not an easy path. Lacking experience in making business plans, tendency of saving costs, paucity of knowledge about local rules and huge cultural differences create great hurdles for their operation especially at the initial stage. Moreover, the overall poor image European and Dutch people tend to have about Chinese polity and products generate distrust and disdain towards these newly arrived business-buyers and managers. As a result, they may encounter huge problems in recruitment, HR management and integration processes. Additionally, their parent companies are demanding and operating under different norms, so that the transnational quality of the subsidiaries tend to put their expatriate managers in a precarious position. Despite all these challenges, Chinese companies have shown tremendous courage in trial and error and a few successful ones achieved business expansion at a remarkable speed.

Fourth, what will Chinese companies mean for the Netherlands? The ever more visible presence of Chinese companies in the Netherlands and the overall lack of understanding about those new investors have brought lots of ungrounded fears and hopes. In economic terms, the influence of Chinese investment in the Netherlands is still limited. In 2013, compared with Japanese companies, Chinese firms are still about more than ten times behind in almost every business aspect, including firm size, employment, turnover and production values. However, the picture is changing fast. No matter whether the coming of Chinese companies poses threats or brings blessings, the Netherlands has no choice but to face them. How the

Netherlands can position itself vis à vis the emerging power is critical in maintaining and enhancing the Netherlands' status in the world. In this sense, the coming of Chinese companies to the Netherlands has brought home the learning process about the up and coming new power. Furthermore, preoccupied by localisation, Chinese firms are not only learning technical skills of business operations but also the social skills in the European market. By quick adaptation they will become stronger but more familiar competitors in the international market and the Netherlands can contribute to the Chinese multinationals in the making.

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## Appendix 1: Overview of companies interviewed

(SOE = state-owned enterprise; POE = privately-owned enterprise; RMB = Chinese renminbi yuan)

	Sector/business activities	Ownership	Mode of entry	Year of arrival	Employees	Initial investment (Euros)	Assets parent company
1	Marketing	SOE	Greenfield	2015	2	<0.5 million	7 billion RMB
2	Electronic equipment	POE	Greenfield	1999	48	5-30 million	115 billion RMB
4	Business services	SOE	Greenfield	2002	22	n.a.	n.a.
5	Industrial equipment	SOE	Greenfield	2009	14	n.a.	20 billion RMB
7	Transport-logistics	Mixed	Acquisition	2013	400	> 100 million	95 billion US dollar
9	Transport-logistics	SOE	Joint venture	1980	88	< 0.5 million	n.a.
10	Industrial equipment	SOE	Acquisition	2011	900	> 100 million	43 billion RMB
11	Electronic equipment	Mixed	Greenfield	2009	220	5-30 million	30 billion RMB
12	AgriFood	SOE	Greenfield	2014	4	0.5-1 million	50 billion RMB
13	ICT	POE	Greenfield	2005	650	1-5 million	n.a.

14	ICT	POE	Greenfield	2012	6	<0.5 million	n.a.
16	Transport-logistics	POE	Greenfield	2015	8	n.a.	n.a.
17	Business services	POE	Greenfield	2013	10	<0.5 million	n.a.
18	Business services	POE	Greenfield	2007	12	<0.5 million	n.a.

## Appendix 2: Data preparation and sample selection

Both the Chamber of Commerce (Kamer van Koophandel, KvK) and Statistics Netherlands (Centraal Bureau voor de Statistiek, CBS) datasets are raw data that need considerable cleaning, recoding and restructuring before analysis. The steps satisfactory data preparation and a representative research sample will be described in the following section.

For the KvK dataset, all records have been manually cross-checked for validity. In order to proceed with these actions, a definition of what a Chinese company constitutes had to be formulated. For this research, Chinese companies were defined as companies whose ultimate controlling institutional unit (UCI of the EUROSTAT definition) and corporate headquarters were located in either mainland China or Hong Kong.

The next step was to check and select the records that qualify as Chinese companies using the following criteria:

- Is the parent company a Chinese company from mainland China or Hong Kong or does it belong to a non-Chinese business entity? During the first exploration, the data extract contained many records of Taiwanese companies or companies of other origin that have invested in the Netherlands via Hong Kong. These companies do not qualify as Chinese and were left out of the research sample.
- Is the parent company traceable (online) under the name given in the data-excerpt? For each record, the name of the parent company online was verified. We checked if the parent company had its own website or another online presence and a valid company address that corresponded with the one given in the data extract. If the existence of the parent companies could not be traced online, the records were not included in the research sample.
- Is the Dutch subsidiary traceable (online) and does the parent company mention its name on the corporate website or in any other form? As with the online checks of the parent companies, it had to be verified whether the Dutch subsidiaries were (still) owned by Chinese companies. The existence of the Dutch subsidiary was examined by checking whether the subsidiary was mentioned on the website of the parent company or in (online) press releases. Subsidiaries with their own corporate website were included in the definitive selection.
- Does the subsidiary list employment figures? In the dataset, many firms had not submitted employment figures to the Chamber of Commerce. Some had either none or just one employee. Some Chinese firms chose not to reveal employment figures, these were assessed according to the first three criteria whether the subsidiary actually existed and qualified as a Chinese company.
- Is the subsidiary a holding company and does it generate employment? Both the Netherlands and Hong Kong have a favourable corporate tax environment. Many multinational firms set up holding companies in the Netherlands or Hong Kong for round-tripping purposes. A lot of these holding companies are 'empty shells' and do not contribute to the local economy by means of employment or investment. In this report, such holding companies were omitted from the sample, except for the ones that generate employment.
- How many records are registered at one address? Some companies registered numerous subsidiaries, business units or holding companies at one address. In those

cases, all but one record was excluded. Furthermore, the address of the business location at which numerous financial holdings were registered was inspected with Google Maps Street View. If the address turned out to be located in a highly residential area the records were not included.

In the end, 315 companies in the KvK dataset were identified as genuine Chinese companies.

For the CBS microdata, only the sets for the years 2011-2013 were used, since these represent the Chinese corporate population in the Netherlands the best. Furthermore, the inward FATS datasets for the years 2008-2010 do not give a good indication, because there are too few records of Chinese firms to analyse. In these datasets, only the records of mainland Chinese affiliates were selected and not those under Hong Kong ownership, because year-on-year changes of variables for various Hong Kong affiliate records were too extreme to be considered reliable. As inward FATS is an assembled dataset that tracks the business performance of all registered foreign affiliates in the Netherlands, the impact of Chinese subsidiaries on the Dutch economy was put into comparative perspective by benchmarking their performance against that of Korean and Japanese companies in the same dataset. The Chinese subsidiaries were compared to their Korean and Japanese counterparts in terms of industrial sector, firm size, labour costs, R&D intensity, turnover, production value, value added at factor costs, labour productivity, profitability of operations and gross investment in tangibles. For the Chinese data records, the results were broken down further by the following aggregate categories: manufacturing/construction, services and wholesale/retail.

Before analysis, the datasets had to be prepared. In the process of cleaning, many duplicate records were discovered; records that have exactly the same values for every single variable category. Often companies with more than one subsidiary report the same results for each subsidiary or only use the financial results of the head office in their response to the CBS. In these instances, all but one record was omitted. After this first round of cleaning, the selected data were analysed to disclose and compare the firm size, employment features and labour costs of Chinese, Korean and Japanese subsidiaries in the Netherlands.

In the second stage of cleaning, the data extracts were checked for extreme values that influence the outcomes too much (i.e. more than 50% of the end result of performance indicators) or are downright unrealistic, e.g. negative employment figures. Records that contain these extremes were not included in the analysis. Financial holdings (SBI code 6420) with one or none employees and immense turnovers were excluded from the sample as well. Moreover, extremes in year-on-year changes (e.g. tenfold increases or decreases in one year for all variable categories of one record) have also been cleared. Table 1 shows the size of the research population and the first and second stage samples.

*Table 1: Size of research population and samples (CBS data)*

	2011	2012	2013
China	242	277	320
Korea	70	71	80
Japan	446	463	545

<i>First stage sample</i>			
China	166	201	239
Korea	65	63	71
Japan	402	421	479
<i>Second stage sample</i>			
China	154	188	226
Korea	65	63	71
Japan	402	421	479

Table 2: Investment of Chinese and Japanese companies in the Netherlands (CBS data)

Gross operating rate = gross operating surplus/turnover, a profitability measure.

China	Turnover x 1000	Gross operating rate	Gross investment in tangibles x 1000	
2011	Manufacturing	510,617	0.07	10,413
	Trade	55,055	0.14	997
	services	842,749	0.01	928
	Total	1,408,421	0.40	12,338
2012	Manufacturing	540,578	0.90	10,476
	Trade	67,498	0.06	1,186
	Services	865,297	0.02	1,433
	Total	1,473,372	0.04	13,095
2013	Manufacturing	626,151	0.06	22,734
	Trade	68,664	0.12	960
	Services	1,219,714	0.02	1,466
	Total	1,914,529	0.03	25,160

Japan	Turnover	Gross operating rate	Gross investment in tangibles x 1000
2011	33,070,815	0.04	442,252
2012	33,557,553	0.04	288,175
2013	32,831,671	0.04	238,613