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PARTNERING OPPORTUNITIES BETWEEN
EUROPE AND **CHINA** IN THE RENEWABLE
ENERGIES AND **ENVIRONMENTAL** INDUSTRIES

Liability of Foreignness of EU Environmental Protection Companies in China – Manifestations and Mitigating Strategies

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Objectives and approach



- The objective of this chapter is to explore the experience of EU companies in the environmental protection (EP) sector in China focusing on their difficulties and the mitigating strategies mobilized.
- We use a qualitative, case study approach, using interview data to explore the Liability Of Foreignness (LOF) (Zaheer 1995) experienced by the companies studied and the strategies adopted to overcome LOF.

- To what extent has LOF affected EU companies in the EP sector operating in China?
- What are the key strategies used by EU firms to deal with LOF in China?

Companies involved in the study



Description/Companies	A	B	C	D	E	F
Home Country	France	France	UK	UK	UK	Finland
Year of establishment of parent	1880	1853	1946	1971	1938	1961
Age of establishment of parent	135	162	69	44	77	54
Year of entry into Hong Kong	1989	2000	1976	-	1993	1990
Year of entry into China	2003	1994	1984	1994	2000	1990
Chinese Market Entry Strategy	M&A	M&A	Greenfield	M&A	Greenfield	Greenfield
Geographical distance (km) between parent and China	9131	9131	8150	9207	9207	7232

Findings on impact of LOF



- All of the companies had experienced difficulties directly related to their 'foreignness'.
 - Unfamiliarity hazards, were mainly related to cultural differences and the communication difficulties these created, both within the company and between the company and its customers.
 - Relational hazards were mainly linked to the distance between the companies and the local authorities, particularly problematic in the highly regulated EP sector
 - The most difficult and persistent hazard identified by all companies was discrimination – in provision of certain licenses and in public tenders
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Strategies to mitigate LOF



- Leveraging their existing networks before entering China.
- Internalising local knowledge by recruiting and integrating local staff and training them in Western management and technical practice
- Making efforts to develop their “guanxi” with local institutions including through training local officials
- Addressing discrimination through local networking and proof of competence through experience
- Using diplomatic channels to address regulatory difficulties, where appropriate



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