

Cross-Cultural Cooperation and Innovation: An Exploration of Chinese Foreign Direct Investment in Europe

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Abstract—This study explores Chinese Foreign Direct Investment (FDI) in Europe and the cross-cultural cooperation between Chinese and European managers. The aim of this research is to shed light on the phenomenon of investments in developed countries from an emerging market and to gain insights into the cooperation process. A grounded theory approach is adopted, and 46 semi-structured interviews were conducted with 10 case companies in Germany and 13 case companies in the UK. Grounded theory models are developed from primary data and interview quotes are used to support the themes. The interviewees perceived differences between the two parties in cultural traits, management concepts, knowledge structure and resource endowment between the two parties. Chinese and European partners can take advantage of different resources and cooperate in innovative ways to improve corporate performance. Moreover, both parties appreciate different ethical and cultural characteristics and complement each other to develop a combined organizational culture. This study proposes an ethical and cultural diversity theory in international management arguing that a team with diversified values and behaviours may be more excited and motivated. This study suggests that “resource complement” and “cross-cultural cooperation” might be an advantage for international investment. Firms are encouraged to open their minds and cooperate with partners with different resources and cultures. The authorities may review the FDI policies to reduce social and political barriers.

Keywords—Cross-culture, FDI, China, Europe.

I. INTRODUCTION

CHINESE FDI in Europe has been characterized by significant growth in recent years. According to data from the European Commission, China's FDI stock in the European Union (EU) increased from €4 billion in 2000 to €120 billion in 2019, making China one of the largest sources of FDI in Europe [1]. According to data from the Rhodium Group [27], Chinese FDI flows into Europe reached a record high of \$20 billion in 2016. While there was a slight decline since 2017, the overall trend remains positive reaching EUR 10.6 billion in 2021. Chinese companies continue to view Europe as an attractive investment destination. Germany, the UK, and France have consistently attracted the bulk of Chinese investments and 70% of total Chinese investments in 2021.

However, the economic uncertainty initially triggered by the pandemic and now being drawn out by geopolitical tensions has subdued China's global investment activity. Moreover, another critical aspect of Chinese FDI in Europe is cross-cultural

cooperation, which refers to the interaction and collaboration between Chinese firms and their European partners, who often come from diverse cultural backgrounds. Cross-cultural cooperation is a complex phenomenon that can have a profound impact on the success or failure of Chinese FDI in Europe.

Cultural differences between China and Europe can pose both opportunities and challenges for cross-cultural cooperation. On the one hand, cultural diversity can enrich the pool of knowledge, perspectives, and resources available for Chinese firms and their European partners, potentially leading to more innovative and successful outcomes. On the other hand, cultural differences can also create communication barriers, misunderstandings, and conflicts that can hinder effective cross-cultural cooperation.

Understanding the dynamics of cross-cultural cooperation in the context of Chinese FDI in Europe is essential for practitioners, policymakers, and researchers interested in international business, cross-cultural management, and Chinese investment in Europe. This study aims to shed light on the strategies, practices, and outcomes of cross-cultural cooperation, and provide insights into how Chinese firms can navigate cultural differences to enhance their investment activities in Europe. The research objectives are to identify the different cultural traits that influence the organisation and management of Chinese FDI, to explore the actions and interactions that both parties take in the cooperation process, and to evaluate the outcomes in innovation, and finally to make theoretical implications to theories, and propose recommendations for policy makers, and practitioners.

In the next section, we review relevant literature and identify research gaps, discuss the theories of FDI and national cultures. We discuss the research methods in Section III and present the findings in Section IV. Finally, we make conclusions, theoretical implications, and suggestions in Section V.

II. LITERATURE REVIEW

A. Foreign Direct Investment and Cultural Factors

Culture plays a critical role in shaping the outcomes of Chinese FDI in Europe and cross-cultural cooperation between Chinese firms and their European counterparts. Cultural factors can influence various aspects of international business, such as negotiation styles, communication patterns, decision-making

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processes, and relationship building, which in turn impact the success or failure of cross-border investments [2]-[4]. Empirical studies [5], [7], [8], [11] have explored the role of cultural factors in the context of Chinese FDI in Europe, including cultural distance, cultural similarity, cultural intelligence, and cultural adaptation.

Cultural distance refers to the differences between cultures in terms of values, norms, beliefs, and behaviours, and it can impact the level of comfort and familiarity that firms experience when operating in foreign markets [5], [6]. Empirical studies have found that cultural distance can have both positive and negative impacts on Chinese FDI in Europe, depending on the specific cultural dimensions being examined and the context of the investment. For instance, [6] found that cultural distance negatively affects the behavioural patterns of Chinese firms during cross-border acquisitions in Europe, which in turn impact the outcomes of the deals. Similarly, [7] found that cultural distance negatively impacts the performance of Chinese firms in outbound acquisitions in Europe. On the other hand, [5] found that cultural distance can have a positive impact on the innovation performance of Chinese firms in Europe, as it can lead to the acquisition of new knowledge and ideas from different cultural contexts. Furthermore, [3] found that cultural distance can also positively impact the relationship between Chinese firms and their European partners in the context of joint ventures, as it can foster mutual learning and adaptation.

Cultural similarity refers to the extent to which cultures share common values, norms, beliefs, and behaviours. Empirical studies have examined the role of cultural similarity in Chinese FDI in Europe and found mixed results. For instance, [8] and [9] found that cultural similarity between China and the host country positively impacts the success of Chinese outbound acquisitions in Europe, as it can facilitate communication, trust-building, and relationship building. Similarly, [10] found that cultural similarity between China and the host country positively impacts the performance of Chinese firms in European markets, as it can enhance market orientation and customer responsiveness. However, other studies have found that cultural similarity may not always guarantee positive outcomes. For example, [2] found that cultural similarity between China and the host country does not necessarily lead to better performance of Chinese firms in Europe, as other factors, such as managerial capabilities and market conditions, also play a significant role.

Cultural intelligence refers to an individual's ability to adapt and interact effectively in different cultural contexts [3]. Empirical studies have explored the role of cultural intelligence in the context of Chinese FDI in Europe and its impact on cross-cultural cooperation. For instance, [11] and [12] found that cultural intelligence of Chinese managers positively impacts the performance of Chinese subsidiaries in Europe, as it can enhance communication, negotiation, and relationship building skills. Similarly, [13] found that cultural intelligence of Chinese managers positively impacts the innovation performance of Chinese firms in Europe, as it can facilitate the acquisition of new knowledge and ideas from different cultural contexts. Furthermore, [14] found that cultural intelligence of Chinese

managers positively impacts the effectiveness of cross-cultural communication and negotiation during international business interactions in Europe. These studies highlight the importance of cultural intelligence for Chinese firms operating in Europe and the need for managers to develop cross-cultural competencies to navigate the challenges of cross-cultural cooperation.

Cultural adaptation refers to the process of adjusting and conforming to the cultural norms, values, and behaviours of the host country. Empirical studies have examined the role of cultural adaptation in Chinese FDI in Europe and its impact on the success of cross-border investments. For instance, [7] found that cultural adaptation of Chinese firms positively impacts their performance in outbound acquisitions in Europe, as it can enhance communication, trust-building, and relationship building with their European partners. Similarly, [3] found that cultural adaptation of Chinese firms positively impacts the relationship quality with their European partners in the context of joint ventures, as it can foster mutual understanding and cooperation. Furthermore, [2] found that cultural adaptation of Chinese firms positively impacts their performance in Europe, as it can facilitate the integration of local resources and capabilities.

B. Cross-Cultural Cooperation in Chinese FDI in Europe

Cross-cultural cooperation strategies refer to the approaches and practices adopted by Chinese firms to effectively manage cross-cultural differences and foster cooperation with their European partners [10]. Empirical studies have examined various strategies used by Chinese firms in their FDI endeavours in Europe. For example, [15] found that Chinese firms in Europe use a combination of localization and global integration strategies to manage cross-cultural differences. Localization involves adapting to local practices and norms, while global integration involves integrating global standards and practices. Chinese firms use localization strategies to adapt to local laws, regulations, and business practices, and to build relationships with local stakeholders. Global integration strategies are used to leverage global resources and capabilities, and to maintain consistency with global standards set by the parent company in China. These strategies are aimed at achieving a balance between local adaptation and global integration and are found to be effective in managing cross-cultural cooperation in the European context.

Similarly, [16] found that Chinese firms in Europe adopt a "bridging" strategy, which involves building bridges between the Chinese and European cultures through socialization, relationship-building, and mutual learning. Chinese firms actively engage in cross-cultural interactions, engage in cultural intelligence development, and create mechanisms for knowledge sharing and learning between the Chinese and European employees. This bridging strategy helps Chinese firms to overcome cultural differences and foster cross-cultural cooperation with their European partners. Reference [17] explored the challenges and barriers Chinese firms face in cross-cultural communication during their outward FDI in Germany. This study identifies cultural differences, language

barriers, and communication styles as key challenges, and highlighted the importance of intercultural communication competence in facilitating cross-cultural cooperation in the context of Chinese FDI in Europe. Reference [10] examined the role of cultural integration in cross-border mergers and acquisitions and finds that cultural integration positively impacts the post-M&A performance of Chinese firms in Europe, indicating that effective cross-cultural cooperation is crucial for the success of Chinese FDI in Europe. Reference [8] proposed a concept of "springboard" multinational enterprises (MNEs), which refers to firms that use a foreign market as a steppingstone to enter other foreign markets. We argue that cultural factors, such as cultural distance, cultural similarity, and cultural adaptation, play a critical role in the success of springboard MNEs, including Chinese firms' FDI in Europe.

C. Cross-Cultural Innovation in Chinese FDI in Europe

Chinese FDI in Europe has exhibited diverse patterns and trends. According to a study by [18], Chinese investment in Europe has shifted from resource-seeking to technology-seeking motives. The focus has expanded from traditional industries to advanced manufacturing, high-tech sectors, and innovation-driven industries. Researchers such as [19] highlight the importance of understanding the sectoral distribution of Chinese FDI in Europe to comprehend its implications for innovation.

Studies have explored the extent to which Chinese FDI in Europe facilitates knowledge transfer and technology spillovers. For instance, [20] found evidence of positive spillover effects from Chinese FDI to local firms in European countries, leading to enhanced innovation capabilities. However, [21] argued that the spillover effects may vary across different industries and depend on the absorptive capacity of the host country.

Research has highlighted the role of innovation networks and collaboration in fostering innovation outcomes in the context of Chinese FDI in Europe. Reference [12] emphasized the significance of strategic alliances and partnerships between Chinese investors and local firms, universities, and research institutions in promoting innovation. They found that collaboration can facilitate technology transfer, knowledge sharing, and joint research and development efforts.

Despite the growing body of literature, there are still notable research gaps. Firstly, there is a need for more comprehensive studies that explore the mechanisms through which Chinese FDI influences different aspects of innovation, including product innovation, process innovation, and organizational innovation. Secondly, cross-cultural cooperation that mediate or moderate the relationship between Chinese FDI and innovation requires further investigation. Thirdly, comparative studies on the impact of Chinese FDI on innovation in different European countries are limited. Therefore, this study investigates the cross-cultural cooperation process and the influences on innovation.

III. RESEARCH METHODS

Grounded theory, a qualitative research approach [22], was

adopted to explore the cross-culture cooperation and innovation of Chinese FDI in the European context. Grounded theory is an inductive research methodology that allows for the development of theories and concepts grounded in empirical data. It is particularly suitable for exploring complex and dynamic phenomena where little existing theory or knowledge exists. The use of grounded theory in this study enables a better understanding of the process of cooperation between Chinese managers and European partners, while allowing for the emergence of new insights and theories.

The research design employed in this study consists of three main stages: data collection, data analysis, and theory development. These stages are iterative and interactive, with data collection informing data analysis, and vice versa. The research design follows the principles of grounded theory to ensure a systematic and rigorous approach to theory development. Semi-structured interviews were conducted with Chinese and European technicians, managers, and academics. The interviews focused on exploring their perspectives, experiences, and insights regarding Chinese FDI and its impact on innovation in Europe. Sampling techniques such as theoretical sampling and theoretical saturation were utilized to ensure data collection. Various documents, including government policy documents, and academic literature, and corporate reports, were gathered as secondary data to complement the primary data.

Data analysis in grounded theory follows a systematic process of constant comparison and theory development [23]. The following steps were undertaken in this study. Firstly, the interview transcripts and document data were subjected to open coding, where initial concepts and categories were identified. Each piece of data was examined line-by-line, and codes were assigned to capture the key ideas and themes. Secondly, through axial coding, the initial codes were analysed to identify relationships, connections, and patterns. The data were organized into categories, and the relationships between categories were explored to develop a conceptual framework. Thirdly, grounded theory models were developed through selective coding which involved refining and integrating the categories identified in the previous stage. The core categories and concepts that emerged were linked and developed into a theoretical framework that explained the process of cooperation and innovation of Chinese FDI in Europe. Findings were presented by explaining the themes and relationships between categories and showing interview data to support the arguments. Ethical considerations were carefully addressed throughout the research process. Informed consent was obtained from all participants, ensuring confidentiality and anonymity. The research followed ethical guidelines and regulations, protecting the rights and privacy of participants. Data storage and protection protocols were implemented to ensure the security of the collected data.

IV. FINDINGS

A grounded theory model is developed to illustrate the findings, in which cultural factors influence the perceptions and actions of managers in cross-cultural cooperations and

consequentially have impact on innovation of Chinese FDI in Europe. The context sets the stage for the central phenomenon to be studied and the process links cultural factors, cooperative actions, and innovation outcomes. The model (Appendix) shows that the context of this study is Chinese FDI in Europe and the central phenomenon in this study is cross-cultural cooperation and innovation. The cultural concepts influencing participants' perceptions and actions include transparency, trust, term orientation, public discourse, emotion, and mentality. The cooperative actions include agreements between Chinese investors and local managers, reliability, validity, and acquaintance, relationships, and respect between both parties. Innovation outcomes include complement, communication, commitment, combination, contribution of both Chinese investors and local partners and finally build a cross-culture community.

A. Cultural Factors

This study found that factors that influence cross-culture cooperation and innovation include ethical principles like the transparency and trust. Different attitudes and behaviours toward time orientation also affect the activities in cooperation and innovation. External social environment such as public discourse influence participations' perceptions and behaviours. Moreover, psychological factors like mentality and personal emotion are involved in cross-culture cooperation and innovation.

Transparency

Most interviewees perceived that transparent information and open communication between Chinese investors and European managers are necessary. Both parties believe that transparency as an important principle is appreciated in both cultural values, which means that both parties share their information and opinions. Open communication is a good way of dealing information about strategies and presents a positive condition for integration and cooperation. The opposite attitudes and behaviours bring uncertainty and inequality between two parties. For example, in the quote below, a German manger shared his experience.

"I was integrated into the top management of the Chinese parent company from the very beginning. I feel I was accepted fully integrated into this group. I was allowed to gain insights into the most confidential information, and everybody talked openly in front of me."

"I think both sides have to share the same information and understanding of the strategy, of the mother firm and also of the local firm. So if the strategy is clearly defined and we can work in the same direction and in the same family and share the same strategy. That is most important." (A British manager in an acquired company)

Trust

The interviewees all believe that trust is a fundamental principle in Eastern and Western cultures. Trust refers to a psychological condition for accepting actions of others based on positive expectation. Chinese investors argue that trust in the German management is a salient premise for their decision to

acquire the firm. A German interviewee expressed that because of trust he is willing to stay with the company. This cultural similarity improves effective cooperation in the organisation and increased innovation. For example, a Chinese manager expresses his opinion in the following quote.

"In traditional Chinese culture, 'one cannot stand without being trusted'. Trust is one of the universal ethical principles all over the world. Firstly, we need to be honest and win trust through out consistent behaviours. Secondly, we should believe in other people. Lao Zi says that 'the honest ones I believe; The liars I also believe; That is faith of Virtue'."

"So the Chinese are ready to place their trust in you, that's definite. It's the same with us – some people are liked more than others. But in this respect, I don't think the Chinese are any different from the Americans or the Europeans. But every one of us was initially trusted." (A British manger in a Chinese company)

Time Orientation

More than half of interviewees admitted that cultural distance exists and both cultural traits have advantages. Time orientation as a cultural dimension shows a society's attitude toward time. Chinese people have a long-term orientation, and the European managers appreciate it as a good characteristic for strategic development. Some European managers have a short-term orientation which is helpful for utilising the resources efficiently and evaluating the performance timely. Both parties work together and make great achievements. For instance, a Chinese investor argues that.

"We would like to adopt a long-term orientation, considering the benefits broadly and think about the future. Even if the project currently is not profitable, we can get the benefit in the future or from following up projects. We need to take a long-term perspective with a broadened horizon."

"One can argue that the long-term orientation of the Chinese investor implies the relevance of confidence in the future of the firm. I believe in the long-term commitment and believe that our Chinese colleagues trust this workforce and the performance portfolio of this company, and therefore intend to continue its operations in the long-term." (A German manager in an acquired company)

Public Discourse

50% of interviewees mentioned that their perceptions and actions are influenced by public discourse. Debates have often taken place in the media on Chinese companies' entry to European markets. Public reports mostly provided a rather negative image of investors from China and some even see Chinese investment as a threat. Recently more political risks arise, as Chinese products, technology and companies are treated as threats to individual privacy and even national security. Some politicians and media build a negative public image of the Chinese investors through propaganda. In addition to the public images provided by the media, some interviewees perceived that prejudices do exist, and Chinese companies were

excluded and discriminated against in practice. For example, a British manager conveyed that.

“There was a lot of suspicion about Chinese investors because of the news on media and many people think they are not competent. That has changed now, however, at the beginning there were a lot of reservations.”

“Some people doubted that the Chinese companies will move personal information to other places and use in other ways. The authority restricts Chinese companies to many industries to protect their intellectual properties and national advantages.”

Mentality

60% of interviewees pointed out that there were significant differences between the Chinese and the European mentality. Mentality shows people's particular attitude or way of thinking which determines people's interpretation and response to situations. These perceived differences may induce a certain distance between the involved individuals and consequently this may hamper the collaboration. The distance based on different value systems and behavioural patterns may represent a barrier to the development of a common identity. For example, a German manager shares his experience that.

“But there are always question marks because you can't read Chinese faces in the same way that you can read faces here. There's no doubt that there is always a little question mark on both sides, because of the additional element that the relationship of trust needs to be established before you can go on to the next stage.”

“We are basically on the same wavelength as people who have the same cultural background. Of course it's always a problem when you have a language barrier, when you can only communicate with the aid of a translator, when you can't look directly into someone's eyes and interpret their expressions and gestures. You are not on the same wavelength.”

Emotion

70% of interviewees appreciate that emotion, which is a strong feeling and a mental reaction, directs people's perception and behaviour. They believe that taking care of personal emotion is helpful for developing trust between team members and to enhance cooperation between both parties. Emotional intelligence should be promoted to manage own emotion and understand other people and handle interpersonal relationships. The emotional desires should be recognised and fulfilled in particular the higher-level managers should treat lower-level managers equally and fairly. Cultural intelligence refers to the skill and capability to work effectively in a culturally diverse situation. A sense of belongingness is a fundamental condition for employee retention and for building an effective teamwork in an organisation. For instance, a Chinese manager expressed that:

“It is often said that people are not like grass and trees, have feelings and emotions. People interact with people and people create value. We are looking for a respectable company and colleagues and would like to be respected by

others. Increasing internal service quality improves job satisfaction. Satisfied people provide value to the customer and customers deliver profit to the company and shareholders get value. This is a chain.”

“Being an important part of a company conveys a certain sense of belonging and membership. Moreover, the perception of being a member of a family adds a more emotional dimension. A family is often associated with solidarity, togetherness, and the feeling of security. Many people imagine families as positive and harmonic groups in which members support and trust each other.”

The above cultural factors that perceived by the interviewees represent cultural similarities and cultural distances which may influence participants' perceptions and behaviours. Common beliefs and similar behaviours may help the cooperation between team members, but different value systems, languages, habits and external environment may hinder the development of trust in the organisation. However, cultural intelligence can be developed, and cultural differences can be used improve the cooperation and innovation.

D. Cooperation

This study identified that cross-cultural cooperations have different development stages. At the beginning, a range of economic, legal and social agreements have been achieved and gradually the involved parties established personal reliability and validity. Inter-personal and cross-institutional trust was developed throughout time and the team members became acquaintance. Gradually team members respect each other with different cultural characteristics and they build emotional relationships with other members.

Agreement

More than half of interviewees argue that Chinese investors and European partners should share their information through an open communication policy and make agreements on strategies and conditions. Agreements are a range of arrangements between two parties about strategic integration processes, economic conditions, financial interests and working benefits. Trust as a dynamic subjective construct can change depending on the conditions rather than a stable state of the relationship. Successful economic situation was the basis for further stabilization of the shareholder's and a difficult economic situation could have hamper on confidence. Favourable agreements are hard conditions for employee retention and building trust between two parties. For example, a German manager expresses that.

“The confidence of the Chinese in our location was consolidated further. I think we were lucky as economic factors were good and it wasn't necessary to talk about the unpleasant things. But when you have to lay people off or implement strict measures, it's much more difficult to build confidence. It's just a starting point and if the conditions were good and performance was right and accordingly trust would be relatively high.”

“From the investor's perspective, confidence is related to the sustainability of the firm. This was the basis for the

investment decision and induced a certain degree of trust. When I've invested 50 million, I believe in the future of the company, because nobody will give it away, nobody will waste it. In other words, there will be no kneejerk reactions.” (A Chinese investor)

Reliability

Most interviewees suggested that reliability is a basis of trust between cooperation partners. Reliability is the possibility of that someone can be relied on what his or her promises. Reliability requires certainty that both parties will keep to the agreements and no other actions taken without the knowledge of another party. Reliability increases when the agreements or plans are realized. An interviewee explained that a mutual agreement involves a kind of value and if one party did not keep to the agreement, it would lose its value. In this case, there is no reliability and as a consequence trust will not develop. Lack of reliability would induce uncertainty and anxieties, which challenge trust building. For example, a British manager says that.

“Trust is difficult. If we draw up a plan which specifies that this year the following will happen, next year the following will happen, however, our partner is unpredictable. If he has an idea tomorrow then things will be different tomorrow, and different again the day after. As a result I cannot depend on any statement, and I am uncertain and anxious about the future.”

“A promise is weightier than one thousand ounces of gold. Breaking promises is not only disappointing other people, but damaging your self-esteem, you lose honesty, and your relationships. What you say is what you say, what you say works. Promise-keeping honours credibility. Trust is a fragile thing, and it is tough to earn and easy to lose, and you may never earn it back again.” (A Chinese manager)

Validity

The interviewees perceived the long-term validity of promises and agreements is crucial, which means they will be realized and implemented. Reliability in cross culture cooperation is a subjective measure and a personal feeling about someone or his/her words and behaviours. If reliability is perceived relatively quickly, and it is expected to be sustainable. Validity in this context first means that the promises and agreements can be kept for long-term and secondly be realised and implemented entirely. For example, the following quotes and other similar opinions illustrated that.

“I have not got any negative experiences relating to commitments which were made but then not kept. He made a number of commitments to the people here, and they all still apply. I can confirm that everything is still true. Nothing has changed, and everything promised has happened. And now I can say things are going to continue, and this is our strategy, and we will carry it out. So no one needs to worry that we will say one thing but do something different.”

“We had some problems in the past. There were some

misunderstandings in the communication and make our people do not believe each other. Even we wrote it in meeting manuals but neither side seriously followed it, and so this is a problem. But now it is a better period to cooperate with our colleagues because both sides committed to what they have promised.”

Acquaintance

Regarding the development of mutual trust, the interviewees perceived the process of becoming acquainted with one another to be of significant relevance. Acquaintance is a person that you know but do not know very well. People are trying to understand one's perceptions and behaviour and may accept him or her as a member of the society. People may also change their perceptions and behaviours to integrate into a local society. This is a phenomenon of cultural adaptation, a process in which a person or a company review and change the perceptions or practices to fit the needs and preferences of local community. However, a cultural diversified community could be established within an organisation, or an area and an organisational culture could be developed to facilitate effective cooperation and innovation between members. For example, a German manager shares his experience saying that.

“It was certainly a big culture shock at first. With them it's completely the other way round and you get the feeling that there is absolutely no trust there at all. But as time passes and you get to know one another a little better, you realise that it takes time for them to build up trust, but once they do then they won't let you down. This means that the situation isn't so problematic. But first it takes time.”

“We were extremely concerned at the beginning. But gradually we feel happy as we realised that we have been taken seriously and integrated. The integration phase took a long time, and we had at least one and a half years to get to know each other. During this period of I took a great deal of importance to know them considering whether we would fit each other.”

Respect

The interviewees argued that they respect different perspectives and made great effort towards same objectives. Respect is a feeling of deep admiration for partners by their abilities, qualities, or achievements. An interviewee used the metaphor of the handshake, which relates to the behaviour of a “respectable businessman”. This metaphor grew historically in Europe and the notion of a respectable businessman stands for a particular sense of responsibility of a person for his own enterprise, for the society, and for the environment. This implies trust between the involved parties and assigns them the attributes of a respectable businessman. For example, a British manager stated that the Chinese partner behaved in a respectable way and kept to all the promises and agreements.

“I have great respect for my Chinese partners. Firstly, because they managed to successfully implement such a project from a start, and secondly because they have made such a good job without interfering everywhere and claiming to know everything better. Instead, they say we

are partners, we have certain rights to receive information, and a certain profit.”

“Now I got a better understanding of their cultural characteristics. I respect that and would try to avoid giving them problems with our relatively direct way of speaking and doing things. In certain situation they don't dare to say certain things, and of course the hierarchy is completely different from ours.” (A German manager)

Relationship

40% of interviewees perceived that they developed a relationship using the metaphor of a family. This perception expressed a particular relationship between the involved parties. An interviewee describes his personal experience when travelling in China, where he felt that he was welcomed like a family member. In addition, he personally felt responsible for the company's sustainable success. This viewpoint reveals identification-based trust, where individuals share common values and take moral responsibilities. Through long-term collaboration and friendship, an emotional connection may develop, which forms the foundation for this identification-based trust. For example, an interviewee reported that.

“I experienced the process of reaching the point at which the two partners share the same understanding of a common or complementary strategy. We developed a family relationship along with the feeling of responsibility. In addition, we have a sort of “mental fit” which is a condition for successful cooperation. Trust is an evolving process, which is compliant with the phases of alliance development.”

“Today our shared interests have led to a kind of family relationship, and in my opinion, it is a relationship combined with responsibility. We worked in the day and in the evening, we enjoy eating together. Every evening we cooked together with team members. I sometimes wondered how it worked out so well. we really respect the Chinese for their skills and hard work.”

The above perceptions and actions show the characteristics and the process of cross-cultural cooperation. Trust is a central theme associated with a kind of development process, which implies a dynamic and evolving nature of trust. Becoming familiar with each other is a crucial process in trust development. Trust relationship is often associated with personal emotional like feeling of reliability, validity, respect and responsibility.

E. Innovation

This study found that in the case companies each party recognised their complementary strengths. They established effective communication channels to exchange information, knowledge, and interests fairly. Both parties committed to combining their different approaches and building a diversified community. These actions make great contributions to cross-cultural innovation.

Complement

More than half of interviewees expressed that Chinese companies and European partners have difference interests and

advantages and have a complementary business strategy. Complement means recognising different advantages and combining strengthens from both parties to create new ideas. Interviewees find that Chinese team members are good at incremental innovation while the European partners are good at disruptive innovation, and they can complement each other in the innovation process. For instance, a Chinese engineer at a technology company said that.

“In the R&D of products updating and improvement, Chinese technicians present more suggestions and opinions while in the breakthrough of the technological problems, local engineers' suggestions and views are more abundant and novel”.

“In recent years, our company has been more involved in the development of other companies' new products. They create a new product, and we improve it and then produce it”. (A Chinese technician)

Communication

60% of interviewees believes that differences in cultural and institutional contexts can create opportunities for learning and collaboration. Communication including exchange of information and knowledge is essential for the success of integration of Chinese investment into local environment. Local managers play a vital role in building relationships with local stakeholders, such as government officials, suppliers, distributors, and customers. Cultural adaption is essential for operating in foreign markets. Local managers act as cultural intermediaries, facilitating cross-cultural communication and understanding and bridging cultural gaps, resolving conflicts, promoting cultural sensitivity, and fostering a harmonious work environment. For example, a Chinese supervisor and a British manager argue that.

“Our first general manager came from a technical background. Our second manager has got management experience who was promoted step by step from a front-line worker. He understands the company's strategy very well, but also does know much about the technology. We learn from each other and coordinate and organise the company well.” (A Chinese supervisor)

“I am an operational manager and taking care of technical issues. I am responsible to the head office and work together with colleagues in the local branch. My role involves bridging the gap between the company's global strategies and the local business environment.” (A British manager)

Commitment

The interviewees appreciate commitment of both parties in knowledge exchange. Local managers play a vital role in knowledge transfer including local market knowledge, industry expertise, and business networks. This knowledge transfer helps the company to develop a comprehensive understanding of the local business environment. Additionally, local European managers can contribute to the development of local talent by providing training, mentoring, and career opportunities. Chinese partners committed resources, effort and proposals and

work together with local colleagues toward sustainable development. This commitment to long-term strategy and exchange of knowledge ensure the success of cross-cultural cooperation and innovation. FDI provides a platform for exchanging of knowledge and techniques among team members and companies with different cultural background. The following quotes and similar remarks states that.

“The Chinese technicians often tell and show British workers how to use the new technology in the production line. Some British workers are also invited to attend training programmes in China and the company will pay for other training in the UK. Technical problems are often solved in our R&D centre and then the solutions are taken to the UK work site”. (A Chinese manager)

“We participated in new product development and solutions and opinions will be discussed when Chinese and British technicians attend together. We also frequently engage with Chinese colleagues in knowledge exchanges and seek technical support from local enterprises. Maintaining close relationships with local universities and research institutions is also the job of our R&D centre.” (A British research director)

Combination

In the case companies some innovations in products or technology can be divided into several modules. The companies who master special technologies are often invited to join in the process of innovations. Different companies are responsible for different modules in the innovation. Chinese companies are actively involved in the local collaborative/open innovation. Transnational and cross-cultural cooperations facilitate such innovation models. Contemporary product and technology are often developed by a group of companies. In particular, some large and comprehensive projects are conducted by a group of organisations because firstly, different knowledge and technologies are held by different companies and secondly, syndicate investment can diversify risks among cooperative partners. The following quotes and similar remarks demonstrate that.

“We are busy developing a new product with other companies. There are four parts (or modules) and our company is only responsible for one of four parts because we are holding relevant patents. Nobody can develop a product by themselves only and even if they can it will take too much unnecessary time.” (A Chinese researcher)

“We have many patents and we work together with other companies or sell our modules. Tradition close internal innovation is replaced by an open modular combination of technologies from different firms and regions. Modular combination is an effective model for innovation, particularly in the context of new technologies and changing market conditions.” (A British engineer)

Contribution

More than half of the interviewees appreciate great contribution from their partners and emphasise the importance of distribution of benefits among partners. Exchange of interest

is always associated with exchange of knowledge. Interests include technology, market, capital and so on. Firms often exchange their interests with other companies for what they need urgently, such as acquiring technology with the “Market for technology”. Knowledge and technology are taken as “products and services” to be sold through mainly as “technology support” and “training”. Successful cooperation depends on contributions from partners and distribution of benefits to partners and therefore fair exchange of interest is crucial in combined innovation. For example, a Chinese technician expresses that:

“Most of the work in our R&D centre is selling technology to other firms in different industries and areas. Our company often develops new products for other companies as we have the key technology”. (A Chinese technician)

“We donate a large amount of funds and equipment to universities and leading firms in exchange for some technical and operational support, when necessary, every year.” (A director of R&D)

Community

40% of interviewees argue that build a community is an effective way of cross-cultural cooperation and innovation. A community in this context is an organisational society involving staff members with a unique organisational culture or a broad cross-culture social platform linking stake holds including local universities, public authorities, financial institutions, companies, and local residence. The relationship among team members or between stakeholders could be economic, social, and emotional. This is an outcome of spiritual innovation, a new culture combining different principles, perceptions, social norms and behaviours. For example, a Chinese manager shares his idea that.

“We have connections with local universities, banks, local council and other organisation and help Chinese companies to be familiar with local environment. We can be strategic partners with local organisations and create a platform for cooperation. We can learn from each other and build a cultural diversified society. In Chinese culture the ultimate objective is to establish a great community where everybody lives harmonically with different people.”

“We British people are proud of ourselves as a cultural diversified society. People from all over the world with different perceptions and behaviours live together and we value equality, diversity and inclusion. Everybody can get national health services, education opportunities, accommodation and be treated with respect and live with dignity.” (A British manager)

The above perceptions and actions facilitate cross-cultural cooperation and innovation between Chinese companies and European partners. By embracing these principles, organizations can maximize the potential for innovation in cross-cultural contexts and create mutually beneficial partnerships.

V. CONCLUSION

This paper develops a grounded theory model to illustrate the findings on the influence of cultural factors on the perceptions and actions of managers in cross-cultural cooperation, and its impact on the innovation of Chinese FDI in Europe. It provides a map to link factors, perceptions, actions and outcomes and by understanding and leveraging cultural similarities and differences, organizations can enhance cooperation, build trust, and promote innovation in the context of Chinese FDI in Europe.

The study identified different stages of development of cross-culture cooperation. Agreements between Chinese investors and European partners were crucial at the beginning, followed by the establishment of reliability, validity, and acquaintance between the parties. Interpersonal and institutional trust developed over time, leading to respect and emotional relationships between team members.

Regarding innovation, complementarity emerged as a crucial factor in the collaboration between Chinese companies and European partners. Effective communication enables knowledge exchange between two parties who learn from each other, coordinate their efforts, and organize their companies successfully. The commitment to long-term strategies and the exchange of knowledge ensured the success of cross-cultural cooperation and innovation through modular combination. Fair exchange of interests and distribution of benefits according to their contribution are key features in knowledge transfer.

This study proposes an ethical and cultural diversity theory in international cooperation and innovation. Building a cultural diversified community is an effective approach which connect stakeholders and foster economic, social, and emotional relationships among team members and stakeholders. This is considered a result of spiritual innovation, combining different principles, perceptions, social norms, and behaviours. An ethical and cultural diversified community allows for learning from each other, foster a culturally diverse society, and promoting harmonious coexistence.

This study makes implication to cultural intelligence theory [24], believes individuals have curiosity about other cultures, a willingness to engage with diverse perspectives, and a desire to learn from multicultural experiences. Cultural intelligence knowledge includes cultural norms, values, customs, and practices across various cultures. Individuals can improve culture intelligence knowledge and enhance cross-cultural cooperation, build strong relationships with people from different cultures.

This study makes implications to the prejudice and fallacy theory [25], [26]. Individuals develop a sense of identity and self-esteem with their own group and perceive other groups as threats or competitors. Availability heuristic involves relying on easily accessible information like public discourse, when making judgments, various biases and heuristics can influence individual perception and behaviour. Confirmation bias means that individuals prefer favour information that supports pre-existing beliefs and discount or ignore contradictory evidence.

Policy Implications

Participants identified that political risk is a barrier for FDI and cross-cultural cooperation and innovation. This study suggests that the authority needs to encourage knowledge transfer and collaboration between Chinese investors and local firms. Additionally, policy makers need to consider the balance between protecting national interests and facilitating transnational investment and innovation. Moreover, intellectual property right (IPR) protection has been identified as a critical factor influencing innovation outcomes and effective IPR enforcement mechanisms and regulations can encourage innovation and attract Chinese investment in Europe.

Limitations and Further Studies

There are some limitations in this study and future research may extend the research. Firstly, only a small number of case companies were studied, and more interviews could be conducted with other companies and different stakeholders. Only two European countries were studied because of limited resources, which may not represent other European countries. This study explored the factors and process of cooperation and innovation and in the future quantitative study could be undertaken to test the findings and other methods like questionnaires can be used to expand the sample size. Furthermore, more problems or difficulties could be identified in cross-cultural cooperation and innovation as this study focused on positive factors and outcomes. Future research can further explore other cultures for example in Middle East and African countries. A comparative study can offer a comprehensive understanding of cross-cultural cooperation and innovation.

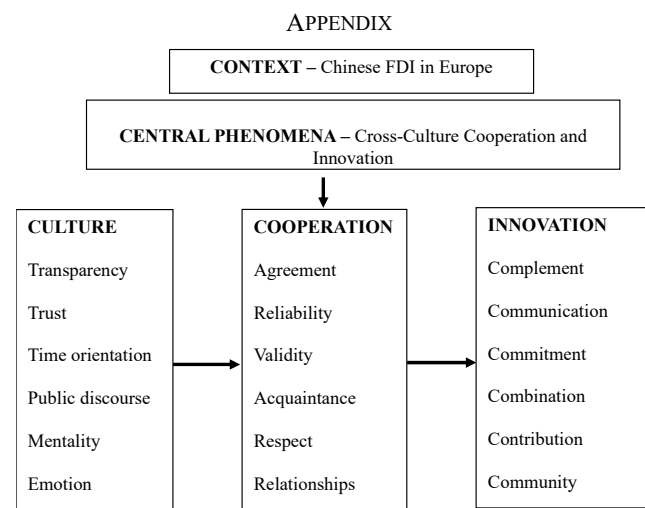


Fig. 1 A grounded theory model of Chinese FDI in Europe

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