CHAPTER 3

Control and Coordination of Chinese Subsidiaries in France

Johannes Schaaper and Ni Gao

Abstract France is nowadays an attractive country for Chinese investors. With their direct investments in France, Chinese companies pursue mainly market and asset seeking goals. However, Chinese often lack international experience, which makes performance of their subsidiaries in France difficult to achieve. Our research tries to understand how Chinese companies use coordination and control mechanisms to manage their subsidiaries. We held interviews with 17 managers in charge of Chinese subsidiaries in France. We find that Chinese companies use four main dimensions of coordination and control to manage their subsidiaries in France: (i) control through the share of capital in a subsidiary, with a clear preference for wholly-owned subsidiaries or large majority shares in joint ventures; (ii) decentralised decision-making to compensate for the lack of international experience of Chinese managers; (iii) formalisation of the subsidiary's organisation through a mix of reporting,

J. Schaaper (✉)
IAE, University of Bordeaux, Bordeaux, France

N. Gao
Kedge Business School, Bordeaux, France

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ERP and written documents; and (iv) control by international human resources coming from the Chinese headquarters, including expatriates with rather observational roles and frequent short-term assignments.

Keywords Chinese foreign direct investment · France · Qualitative research · Management of subsidiaries · Control and coordination

1 Introduction

Chinese direct investments in France have been growing steadily for the last 10 years. In 2017, China was the second largest Asian investor in France, just behind Japan, with 65 investment projects creating 2234 jobs (Business France 2018). Among these projects, the investments of the major Chinese groups BYD (automobile and equipment manufacturer), MINYOUN (hotel and real estate) and Aviation Industry Corporation of China (AVIC) are the most prominent examples, due to the volume of investment and the numerous jobs that resulted from these investments.

Chinese companies appreciate the size of the French market, the quality of its transport infrastructure, its geographical localisation in Europe and innovative capabilities. Moreover, for 2017, France recorded a growth rate of 2% (INSEE 2018), which is the highest since 2011. For Chinese investors, France has become the second most attractive country in Europe behind Germany and ahead of the United Kingdom (Business France 2018).

Chinese companies pursue two main goals with their foreign direct investment (FDI) in France. The first motive is market-seeking, where Chinese companies want to increase their sales in French and European Union markets. Some Chinese companies are looking at the francophone West African markets, with which France has historical connections. Some Chinese companies also target entering specific protected European markets where direct access for Chinese companies is complicated, like the telecommunications sector, through establishing a subsidiary in France. The second FDI goal is strategic asset-seeking. Chinese firms acquire strategic assets, with the aim of enhancing their global competitiveness, including internationally recognised brands, industry-related technology, advanced production methods to upgrade their industrial capacity and R&D and innovation capabilities to develop higher added-value products and services.

Chinese investors are aware of the difficulties of their internationalisation route in France. Chinese companies often lack international experience and are perceived as novices on the international scene, which makes the successful performance of Chinese subsidiaries abroad more difficult to achieve. Moreover, the relatively high cultural differences between France and China add difficulties to the management of Sino-French subsidiaries. Therefore, the headquarters-subsidiary relations between the parent company in China and its subsidiary in France are important, particularly with respect to the issues of coordination and control. In this chapter, we focus on the following questions: How do Chinese companies coordinate and maintain control over their subsidiaries in France? What are the means used by Chinese companies to ensure the most effective control?

To answer these questions, we first reviewed the literature on coordination and management control of subsidiaries abroad. We then conducted face-to-face interviews with managers of 17 Chinese subsidiaries located in France, which will be analysed. The structure of this chapter follows the same logic. The first part is devoted to the literature review, the second part details the data collection and analysis methodology and the third part discusses the results of our qualitative survey.

2 Coordination and Control of Subsidiaries Abroad: What Does Academic Literature Teach Us?

According to Mintzberg (1979), any organisation faces the complex issue of dividing labour into tasks and subtasks to support specialisation, and to plan the coordination of these tasks. An organisation can thus be defined as "the total sum of the ways in which its divides its labour into distinct tasks and then achieves coordination among them". In international management, coordination is a major and fundamental concern for companies (Martinez and Jarillo 1989). Mintzberg (1979) identifies six main mechanisms for coordinating work within an organisation: direct supervision, mutual adjustment, standardisation of work processes, standardisation of output, standardisation of skills and standardisation of norms, also called socialisation. These coordination mechanisms are the means to achieve a sufficient level of integration between different divisions within the same organisation and to optimise overall operational performance.

Geringer and Hebert (1989) define control as "the process by which one entity influences, to varying degrees, the behaviour and output of another entity through the use of power, authority and a wide range of bureaucratic, cultural and informal mechanisms". They add that as organisations expand in size, they face increased complexity and differentiation in their structures, as well as the risk of conflict, opportunistic behaviour and competing goals between or within units. As a result, top management confronts the crucial need to monitor, coordinate and integrate the activities of the organisation's units.

Martinez and Jarillo (1989), studying coordination mechanisms in multinational corporations (MNCs) between 1953 and 1988, gather research into three main streams. The first concentrates on the organisational structure of multinational corporations, including their departmentalisation, international divisions and product and area or matrix organisations. The second stream focuses on decision-making centralisation, or autonomy, and bureaucratic control, which includes formalisation, standardisation and reporting. These first two streams focus on formal mechanisms, whereas a third stream investigates more subtle mechanisms, such as informal communication, transfer of managers, behavioural control, socialisation, expatriation, visits, networks of people and corporate culture.

Ghoshal and Nohria (1989), studying headquarters–subsidiary relations, find that the optimal fit between environmental contexts and subsidiaries requires a differentiated combination of three elements: centralisation of decision-making, formalisation (use of systematic decision-making rules and procedures) and normative integration based on consensus or shared values as bases for decision-making. Centralisation implies governance mechanisms in which the decision-making process is hierarchical, where headquarters (HQs) makes most crucial strategic and policy decisions. The level of centralisation reflects the degree of autonomy that HQs grant to subsidiaries to make decisions about their own strategies and policies. Formalisation is considered as routine decision-making and resource allocation, through manuals, standard procedures, rules and policies with monitoring to ensure that rules have not been violated. Normative integration leads to shared values. The main instruments of normative integration are the period of time that subsidiary managers work at HQs, the presence of HQs mentors for subsidiary managers and the number of HQs visits to subsidiaries. Progressively, normative integration is referred to as socialisation, a designation that continues to be used widely in organisation theory.

Harzing and Noorderhaven (2006) acknowledge that Ghoshal and Nohria's (1989) triptych centralisation-formalisation-socialisation is relevant in the context of western MNCs in Asia, though they consider expatriation as a stand-alone complementary control dimension. Expatriation has had crucial influences on the development of western MNCs' businesses in Asia, and on the development of control systems (Harzing 2001; Jaussaud and Schaaper 2006). In international management literature, expatriation plays an important role in controlling foreign subsidiaries (Jaussaud et al. 2012). Western multinationals often send their own expatriates to manage subsidiaries abroad. They facilitate communication with the parent company and transmit central information. However, the high costs and frequent failures associated with expatriation have prompted MNCs to rely on both short-term assignments to subsidiaries in Asia (Bonache et al. 2010) and localisation of management positions (Schaaper et al. 2013).

During the last decade, new forms of control have emerged, especially worldwide Enterprise Resource Planning (ERP) and intensive travel. Introduced in the early 1990s, ERP systems support globalisation. They centralise control and standardise processes. ERP also makes real-time data available worldwide, which creates flexible and decentralised organisations. With a quantitative survey of 156 companies in China, Wang (2007) asserts that the deployment of ERP leads to flatter, more decentralised and standardised organisational structures.

The development of high-speed, global travel, as well as the progress in information and communication technologies, have changed the way people work, especially across national borders. International short-term assignments complement crucial but costly expatriation. The main purposes of short-term missions are to provide expert knowledge, solve technical problems, conduct audits, attend meetings and deliver training. They also complement expatriates in their control function and play an important role in circulating information throughout the network of subsidiaries (Tahvanainen et al. 2005).

Multinational companies use different control and coordination mechanisms to manage their subsidiaries abroad. Abundant research has shown the way western multinationals use control and coordination dimensions to manage their subsidiaries in Asia. However, there is a dearth of research on "reverse international management", i.e. management of subsidiaries in developed countries owned by emerging countries multinationals. Our research goal is to understand how Chinese companies combine the different modes of coordination to better control their subsidiaries in France.

3 Empirical Methodology

The main purpose of this study is understanding how Chinese companies combine the different modes of coordination to exert control over their subsidiaries in France. Only a few empirical studies have explored this question (Shen and Edwards 2006; Fan et al. 2013; Wang et al. 2014). Therefore, we opted for qualitative interviews with, mostly Chinese, managers of Chinese subsidiaries established in France.

3.1 The Empirical Field Is France

France is a developed, industrialised country and an attractive destination for Chinese outward FDI. In 2017, France's GDP of 33,400 euro per capita is the 9th highest in Europe. With 66 million inhabitants, its total GDP of 2.5 billion euro is the third largest in Europe, after Germany (3.5 billion) and the UK (2.6 billion), and 6th largest worldwide. The French consumer market offers good opportunities for Chinese firms. Furthermore, France is located in the Western part of the European Union. It is bordered by the North and Mediterranean Seas and the Atlantic Ocean. The air, road, maritime and rail transport systems are highly developed. Its neighbouring countries, Belgium, Luxembourg, Germany, Switzerland, Spain and Italy and the UK (connected by tunnel), also offer very attractive consumer markets. Therefore, France is clearly a gateway to European markets. French firms have competitive advantages in many sectors, including aviation, nuclear power, chemical industries, medicine and agriculture. France's strong mathematics, physics, and engineering cultures lead to the creation of excellent research output and innovation centres, both public and private. According to the statistics of the World Intellectual Property Organisation (WIPO 2017), France ranks 6th worldwide in terms of international patents ownership. This has attracted the attention of Chinese companies, especially those looking for strategic assets.

Table 1 Sample characteristics

Case	*Founded*	*Ownership*	*Age years*	*Employees worldwide*	*Industry sector*	*Manufacturing/ trade service*	*Entry year France*	*Entry mode*	*Subsidiary capital structure*	*Employees in France*
C1	2006	SOE	9	1000	Consumer goods	Service	2012	M&A	IJV 70%/30%	15
C2	1997	SOE	18	30,000	Maritime transport	Service	1999	Green-field	100% China WOS	23
C3	1995	SOE	20	19,000	Real estate industry	Service	2012	Green-field	100% China WOS	6
C4	1996	Private	19	1400	Nuclear industry	Manufacturing	2013	M&A	100% China WOS	10
C5	2001	Private	14	4000	Wig manufacturing	Manufacturing	2012	Green-field	100% China WOS	20
C6	1988	Private	27	150,000	Telecommunications	Service	2003	Green-field	100% China WOS	650
C7	1955	SOE	60	16,000	Engine manufacturing	Manufacturing	2011	M&A	100% China WOS	100
C8	1996	Private	19	2500	Broadcasting and cable TV	Service	2009	Green-field	100% China WOS	5
C9	1996	Private	19	1200	Wolfberry processing	Manufacturing	2012	M&A	100% China WOS	20

(continued)

Table 1 Continued

Case	*Founded*	*Ownership*	*Age years*	*Employees worldwide*	*Industry sector*	*Manufacturing/ trade service*	*Entry year France*	*Entry mode*	*Subsidiary capital structure*	*Employees in France*
C10	2004	SOE	11	110,000	Chemical industry	Manufacturing	2006 2007	M&A M&A	100% China WOS IJV 80%/20%	3100
C11	1903	Private	112	28,000	Beer production	Manufacturing	1995	Green-field	100% China WOS	5
C12	1991	Private	24	10,000	Medical equipment	Manufacturing	2008	M&A	100% China WOS	47
C13	1946	SOE	69	55,000	Diesel manufacturing	Manufacturing	2009	M&A	100% China WOS	190
C14	1978	SOE	37	130,000	Steel manufacturing	Manufacturing	1995	M&A	100% China WOS	25
C15	1980	SOE	35	16,000	Service sector	Service	1992	Green-field	100% China WOS	20
C16	1961	SOE	54	130,000	Maritime transport	Service	1991	Green-field	100% China WOS	30
C17	2008	Private	7	100	Mining industry	Mining	2013	M&A	IJV 75%/25%	20

Notes SOE = state-owned enterprise, M&A = merger and acquisition, WOS = wholly-owned subsidiary, IJV = international joint venture. For the IJVs, the first percentage listed refers to the amount held by the Chinese partner, and the second percentage is the amount held by the French partner
Note also that Chinese enterprise (C10) conducted two acquisitions, in 2006 and 2007

3.2 Sample of Chinese Subsidiaries in France

Table 1 contains an overview of the face-to-face interviews we held with managers of 17 Chinese subsidiaries in France.

Our sample contains both state-owned enterprises (SOEs) and private companies, which invested in various industrial and service activities, including manufacturing, transport and services. This conforms with the classification by Rui and Yip (2008), which ranks Chinese acquisition firms in three categories: large SOEs, impelled by the Go Global policy, public share-issuing companies and private companies. Concerning the preferred entry mode, most of the investing Chinese companies use wholly-owned subsidiaries (WOSs) to settle in France (15 out of 18 cases), of which 8 are through greenfield investments and 7 are through merger-acquisitions (M&As). Three Chinese companies opted for an M&A through an international joint venture (IJV) with a local French partner. However, in the case of the IJVs, the Chinese partner holds a strong majority part of the IJV shares (70, 75 and 80%, respectively).

3.3 Interviews

To prepare for the interviews, we wrote a semi-structured interview guide in French and Chinese. The interview guide started with questions about the history of the MNC in its home country and their internationalisation in France. We then focused on the management of Chinese subsidiaries in France, asking the respondents to describe their expatriation and localisation policies, including the number of expatriates and local managers, their roles and management positions, the level of centralised decision-making, the use of formal control and informal control mechanisms. Again, we asked the respondents to explain in greater depth, where relevant, the reasons for their management practices. The interviews were held in 2015. They lasted between 45 minutes and 2.5 hours. Deliberately, we did not record the interviews, because doing so with the Chinese subordinate expatriates would have required permission from corporate hierarchies, which is difficult to obtain within Chinese corporate culture. Instead, during the interviews we took carefully handwritten notes and immediately after the meeting we fully wrote out the content of the interview. We sent back the written transcriptions to the interviewees and asked for their feedback and validation.

3.4 Data Analysis

The data analysis followed the qualitative methodology of Silverman (2006) and Miles and Huberman (1994). After the full transcription of the interviews, we distributed the text of the full transcription of the 17 interviews into a thematic content analysis grid, with one column per interview and one row per item on the interview questionnaire. Then, on the basis of our research questions and expectations, we drew up an initial list of pre-specified codes (numbers, keywords, short phrases) related to the different modes of coordination that companies use to exert control over subsidiaries. We reduced the fully transcribed interview grid, question by question and interview by interview (i.e. cell by cell) according to these pre-specified codes. Thus, we obtained a reduced content analysis grid. We also added some supplementary variables drawn from external secondary data sources, such as websites, trade directories and Chinese government investment agencies, which enabled us to understand how Chinese companies combine the modes of coordination to exert control over their subsidiaries in France. In relation to our research questions, we looked specifically, row by row, for similarities and contrasts between the interviewed Chinese companies. We finished the analysis with repeated readings of the interviews.

4 Results: How Chinese Companies Keep Control Over and Coordinate Their French Subsidiaries?

Chinese companies coordinate and exert control over their French subsidiaries by combining four main dimensions: control through the share of capital that the parent company owns in the subsidiary, control through decentralised decision-making for better local adaptation, control through formalisation of the subsidiary's organisation and control through international human resources which the Chinese parent company sends to their subsidiary in France.

4.1 Contractual Control Through the Share of Capital That the MNC Retains in a Subsidiary

Since the end of the 1990s, there is a real trend to use more often wholly-owned subsidiaries instead of international joint ventures as an entry mode, for several reasons. First, most sectors have been opened to full foreign-owned investments. Second, WOSs offer better control, are easier to manage and induce less conflict than IJVs. Third, WOSs are less prone to leakage of sensitive know-how and allow better transfer of acquired technologies. However, in some cases IJVs still offer a good alternative solution. In particular, local partners might facilitate administrative procedures, are useful for developing local distribution or logistics networks and have deeper knowledge of local consumers' needs.

15 Chinese companies in our sample (C2, C3, C4, C5, C6, C7, C8, C9, C10, C11, C12, C13, C14, C15, C16) have chosen the wholly-owned subsidiary as entry mode into France. Seven firms undertook a merger-acquisition of an existing French firm, whereas 8 firms entered through a greenfield investment, i.e. they created a new subsidiary. Three Chinese investments in France were undertaken with a local French partner, in the form of an IJV. However, in all three cases, the Chinese partner acquired a large majority share of the capital of the IJV. We see that Chinese firms in France prefer to invest while retaining a high share of the capital, 100% in most cases. The first reason for the preference for 100% acquisitions is that foreign investors in France are not obliged to join with a local partner in a joint venture, as is sometimes still the case for French investments in China, which allows them to fully acquire existing French firms. The second reason is related to the asset-seeking goal which several Chinese companies in our sample pursue. To accelerate the integration of the acquired assets, the best way to do so is to take full control over companies abroad. Seven companies in our sample (C4, C7, C9, C10, C12, C13, C14), which undertook 100% M&As of existing French firms, explained that they aimed to upgrade their technologies and knowledge. Full, 100% acquisitions allowed them not only to obtain patents, technologies and knowledge quickly, but also to integrate research and development teams, local managers and qualified employees.

Nine companies in our sample (C1, C4, C7, C9, C10, C12, C13, C14, C17) explained that they had only limited international experience. Consequently, they wanted to obtain knowledge in international management, but also knowledge about European consumer behaviour, marketing and international financing. Their full acquisitions in France enabled them to improve their management techniques and to transfer the best practices to the parent company in China.

Three Chinese companies (C1, C10, C17) chose the creation of an IJV, partnering with a French company, while taking a large majority stake in the capital, respectively 70%, 80% and 75%. These majority stakes allowed the Chinese companies to reduce risk while benefitting from the knowledge of the French partner, including technical knowledge, local market knowledge and management skills.

Overall, we see that that the Chinese companies in our sample opt for either full control or large majority stakes in IJVs, to keep control over their French subsidiaries. This high control level enables the Chinese companies to access technologies, to acquire knowledge in France and to transfer this knowledge to the parent company in China, with the aim of improving its global competitiveness.

4.2 Control Through Decentralised Decision-Making

Centralisation means that decision-making is hierarchical, such that HQ makes most crucial strategic decisions, which subsidiaries have to execute. At the opposite end, autonomy or decentralisation means that subsidiaries can make decisions about their own strategies, without direct control from HQs. Our interviews show that about half of the strategic decisions, which engage the subsidiary for a long period, are centralised at the parent company level, while operational decisions, which are implemented at a day-to-day management level, are largely decentralised.

The main reason for Chinese companies to practise decentralised decision-making is that the Chinese managers do not have sufficient knowledge of French and European markets, which exhibit large cultural differences with the Chinese market. European consumer behaviour is different both in terms of preferences and purchasing habits. A lack of knowledge about these markets prevents Chinese HQs from making the right decisions. Therefore, decentralising decision-making especially in the field of marketing and HRM, allows Chinese companies to correctly adapt their strategy to the local consumer needs.

The decentralisation of decision-making provides advantages for the Chinese parent company. First, it enables Chinese companies to benefit from the knowledge of local managers and to quickly implement decisions. Second, the decision-making autonomy enjoyed by local managers creates a sense of belonging and trust between the Chinese parent company and the French subsidiary. This in turn reduces turnover of local managers. As such, the autonomy of local managers is an effective way for the Chinese parent company to learn from their managerial practices and thus compensate for the international inexperience of Chinese managers.

4.3 Control by Formalising the Subsidiary's Organisation

Formalisation is routinised decision-making through rules and procedures. The Chinese companies in our sample put formalisation at the centre of their coordination and management control system, with the aim of better supervising and controlling the activities and operations of its subsidiaries in France.

All the 17 subsidiaries in our sample report frequently to their parent company in China, at least once a month. According to our interviewees, reporting facilitates communication between the parent company in China and the subsidiary in France and enables the HQs to measure the performance of their subsidiary. In the context of decentralised management, reporting also enables the Chinese HQs to verify that the subsidiary complies with its general rules. In addition to reporting, nine companies in our sample (C2, C4, C6, C7, C10, C12, C13, C15, C16) implemented an ERP with the aim of coordinating international operations, including production, inventories, accounting, purchasing and sales on the same central platform. ERPs allow Chinese HQs to standardise processes, to maintain a global overview and to optimise coordination and communication between subsidiaries and HQs. Seven companies (C1, C4, C5, C6, C8, C15, C16) in our sample stressed the importance of written standardisation of processes as it contributes to better coordination of work between the parent company in China and the subsidiary in France.

In short, in the context of the decentralised management practised by most Chinese companies in our sample, formalisation plays a complementary and necessary role in coordinating and controlling subsidiaries in France.

4.4 Control by International Human Resources

Sending expatriate managers to a foreign subsidiary helps to ensure that the way the subsidiary is managed is in line with the interests of the parent company (Belderbos and Heijltjes 2005). Expatriates, as such, can be considered as a mechanism of social control. Our interviews show that control by expatriation is relatively weak for Chinese companies in France. Only nine of the seventeen subsidiaries in our sample have a Chinese Chief Executive Officer (CEO). This result is rather different from the French case in China, where French companies grant a central role to expatriates in their Chinese subsidiaries, and underline the importance of appointing an expatriate CEO (Schaaper et al. 2011).

In addition to a low level of expatriation, the Chinese companies in our sample frequently send assignees to their subsidiaries in France on a short-time basis. A short-term assignee is less costly and more flexible than expatriates while performing some of his or her functions (Mayerhofer et al. 2004). The short assignments practised by the companies in our sample are sometimes intended for high-level Chinese executives briefly visiting the French subsidiary. The duration of assignments varies greatly, depending on the company and the mission, but in our sample, this type of travel rarely exceeds 6 months. In most cases, Chinese assignees come to France alone, without their family, while keeping their main job in China.

The main purposes of short-term assignments are usually to set up projects, provide expert knowledge, support technical problem solving, conduct audits, deliver training courses and undertake negotiations and supervisory activities (Welch et al. 2007). Through their frequent travel, international short-term assignees also collect and transfer information and knowledge about foreign markets and operations through the subsidiary network of the MNC as well as between HQs and foreign subsidiaries. Moreover, sending managers and engineers on short-term assignments contributes to their personal managerial development and prepares them for future expatriation (Tahvanainen et al. 2005). Chinese companies confirm that short-term assignments can sometimes offer young Chinese executives the opportunity to work with French or European teams so that they gain international experience, preparing them for future expatriation.

5 Conclusion

The main objective of this research is to understand how Chinese companies use various coordination and control mechanisms to manage their subsidiaries in France and maintain control. In order to provide empirical answers to our research questions, we conducted 17 face-to-face interviews with managers in charge of Chinese subsidiaries in France. We note that Chinese companies use four main dimensions of coordination and control to manage their subsidiaries in France: control through the share of the capital they retain in a subsidiary, control by decentralised decision-making, control by formalisation of the subsidiary's organisation and control by international human resources coming from the Chinese HQ.

Regarding the share of capital, Chinese companies have a clear preference for wholly-owned subsidiaries or a large majority share of the capital in case of a joint venture. This strong equity investment facilitates the acquisition and transfer of technology and knowledge to the parent company in China.

As regards control by centralisation, Chinese companies primarily decentralise and grant decision-making autonomy to local managers in order to compensate for the lack of international experience of Chinese managers. Such decentralisation allows Chinese companies to better meet the needs of local consumers. It also establishes a relationship of trust and cooperation with local French managers, which creates a sense of belonging, which strengthens long-term cooperation.

Formalisation is a central tool for Chinese companies to coordinate foreign activities and exert control over French subsidiaries. The Chinese companies in our sample formalise the relationship between HQs and the subsidiaries through a mix of reporting, integrated ERPs and written standards.

The Chinese companies do not intensively control their subsidiaries through expatriation. Expatriates have more observational roles. In addition, the Chinese HQs frequently send short-term assignees to their subsidiaries in France. This international HRM policy generates exchanges and communication between managers of the parent company and those of the subsidiary, with an emphasis on non-hierarchical information flows between managers. This allows them to share more informally the company's values and goals. It also allows Chinese managers to progressively gain international management experience.

Our research has limits. First, due to the small sample size, we cannot generalise our results to a broader context. The control and coordination mechanisms that Chinese companies implement in their subsidiaries abroad can also be radically different if the strategic objectives of the subsidiaries are not market-seeking or asset-seeking in developed countries, but the acquisition of natural resources, in Africa, or low-cost production, in Southeast Asian countries. In such cases, the Chinese control model and management style are probably different.

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