Cultural and Political Embeddedness, Foreign Investment and Locality in Transforming Economies: the Case of ABB in Poland and China

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The article draws on the concepts of cultural and political embeddedness to analyse the local embeddedness of a global transnational engineering in transforming economies. It compares the process of the negotiations for and the acquisitions of assets undertaken by ABB in Wroclaw, Poland and Xiamen, China. With reference to political embeddedness, while the firm has a strong espoused business culture, the relative strength and autonomy of local institutions in Wroclaw and Xiamen implied different corporate strategies for entry and acquisition. The cultural embeddedness of ABB meant that there were strong similarities in Xiamen and Wroclaw in terms of transferring the norms and routines of the firm. Taking a longer-term view what may appear to be contrasting approaches could be viewed as the same strategy working under more severe institutional constraints, which ultimately slows the pace of acquisition and control rather than fundamentally changing its nature.

KEY WORDS Embeddedness, Foreign investment, Transformation, Transnational firms, China, Poland.

Introduction

Foreign investment in emerging markets has acquired hegemonic status in many regional and national development strategies (Hudson 1995; Phelps 1997). In particular, transnational corporations (TNCs) have been to the fore in instilling new material and discursive practices through the deep restructuring of workplaces in response to what were regarded as the constraints of the previous regimes (Stark 1996; Swaan 1996). Three sets of claims have been advanced to support positive accounts of foreign investment in transforming countries moving from planned to market orientated economies. The first set of arguments emanate from the conventional literature that assumes an automatic and positive correlation between the entry of foreign firms and the benefits at both the national and local level. These benefits are cited as being an injection of foreign capital, local multiplier effects and, importantly, the transfer of superior productive and managerial practices, which will raise...
productivity and increase efficiency. As with the second set of arguments, these benefits tend to be assumed rather than demonstrated, drawing as they do, primarily, on neoclassical approaches which posit an under-socialised view of the firm.

The second set of arguments supporting the increased potential of foreign investment for local development relate to claims that new corporate dynamics have led to the emergence of qualitatively new and essentially superior forms of manufacturing investment by TNCs in Less Developed Regions (Amin et al. 1994; Fynes & Ennis 1997; Rugman & D’Cruz 1997). Such quality investments were seen as the product of a number of organizational changes, which included increased autonomy for firms, and a shift from cost-related defensive strategies to offensive strategies associated with asset and knowledge seeking in the locality. The third set of arguments stem from the more recent attention given to the locality as an important source of competitive advantage (Cooke & Morgan, 1994; 1998; Scott 1995) where firms could access external economies (Krugman 1995; Porter 1994; Zander 2002) and initiate regional cycles of learning. Strong claims have been made for geographical proximity which allows firms to access tacit knowledge from local networks that are central to competitive advantage in a global economy, where knowledge is increasingly widespread and ubiquitous (Maskell & Malmberg 1999a; 1999b).

We argue in this article that the first two strands of literature propose accounts that are largely uncritical and unidirectional, where firms are treated as one-dimensional organizations with a bundle of assets that can be unproblematically transferred across national borders. The third strand of literature makes some attempt to redress the balance by viewing the region or locality as a source of knowledge, which includes active economic agents and institutions. We attempt to enrich these accounts by drawing on broadly institutionalist literature to emphasise the importance of the cultural and political embeddedness of firms (Zukin & Dimaggio 1990). Under-socialised accounts of the firm in neoclassical theory, relegate agents, insofar as they appear at all, to behave as vessels of ahistorical and acultural rationality. Concepts of embeddedness and relational views of the firm, however, have undoubtedly made an important contribution to studying economic behaviour and offer much richer potential for capturing the wide variety and complexity of linkages, in all their social, political and economic dimensions. Beginning with Polanyi’s (1944) seminal work and its reconstruction by Granovetter (1985), the concept of embeddedness has made a significant impact on what Smelser & Swedburg (1994) called the new economic sociology (see Dacin et al., 1999, for a full review of embeddedness and organisational behaviour).

The empirical work is based on extensive interviews in one transnational company, ABB, in localities in Poland and China. Between 1998 and 2002, interviews were undertaken with a range of senior and middle managers in Xiamen, China and Wroclaw, Poland. Managers interviewed included those from finance, sourcing, production and HRM, as well as general managers and trade unions. By drawing on the concept of political embeddedness, the article is concerned with looking at how the firm, which projects a strong and coherent corporate culture, has used different strategies for entering and embedding itself in these two new markets and the consequences for the emerging structures of governance. Second, drawing on the concept of cultural embeddedness we compare how the firm has tried to transfer new norms and collective understandings to the workplaces in the two case studies and discuss the implications for local embeddedness. The article is organised as follows: first, we discuss the concepts of cultural and political embeddedness; second, the espoused corporate culture of the firm and its strategy for operating in economies in transformation is considered; third, we discuss the relationship between entry strategy and
The Cultural and Political Embeddedness of Firms

Cultural Embeddedness of Firms

Cultural embeddedness can be defined as ‘shared collective understandings in shaping economic strategies and goals’ (Zukin & Dimaggio 1990). In other words, it is that set of social conventions embracing behavioural norms, standards and customs and the rules of the game underlying social interaction within the firm (Schoenberger 1994). The cultural embeddedness of the individual firm will be an amalgam of a general consensus about management techniques (coloured in the short term by various management fads), institutional conditioning of the country of origin (Kristensen 1997; Lane 1998; Quintinilla & Ferner 2003; Sally 1994; Whitley 1997; Zysman 1996), the idiosyncrasies of agents within the firm and contestation by local workers and managers as they cross national boundaries (Elger & Smith 1994). As firms operate increasingly across national boundaries, they face important issues relating to entering new markets and acquiring a different set of assets, as well as how to manage operations over wider areas embracing different institutional and cultural set-ups (Gamble 2003; Hibino 1997; Rozenweig & Nohria 1994; Sharpe 1997). Therefore, a main concern of this article is the process of entering new institutional contexts, where the incoming firm has to negotiate with or around existing established behaviours and understandings. In other words, as firms cross national boundaries they need to establish relationships with political actors at a national and local level, as well as introduce and establish new material and discursive practices within the firm through restructuring management practices and shifting workplace habits and norms. The notion of cultural embeddedness can be unpacked further. Two important sub-themes relate to cultural embeddedness: the rules of the game used in the process of entry and acquisition; and the conventions and strategies deployed to institute internal change.

The first sub-theme of cultural embeddedness, then, relates to the process of entry and acquisition. This has received scant attention in that most literature has been concerned with motives for internationalisation or the impact of arrival to the neglect of complex and contested negotiations to secure entry and how this may influence the embeddedness of the incoming firm. The mode of entry, for example by acquisition through the privatisation process or greenfield development, will influence the extent to which past legacies and linkages are preserved. Greenfield investments may circumvent existing linkages and institute new habits and norms, while brownfield entry via privatisation methods may build on and develop existing linkages (Grabher & Stark 1997). The process and outcomes of negotiations at a local and national level regarding greenfield entry or the acquisition of existing assets (brownfield) affect the nature of local embeddedness. The strength and bargaining position of the parties involved will influence the nature of the bargain. For example, if the locality is in competition with other regions for investment they are more likely to make concessions to the potential incoming investor. Further, there may be asymmetrical information as a result of firms’ accumulated learning gained from operating in foreign environments, which may be disadvantageous to local negotiators or national governments. Potentially, such firms who are experienced internationalisers would be able to exert considerable influence in stipulating the terms of entry.
The second sub-theme of cultural embeddedness refers to conventions regarding the restructuring strategy of the firm and the role of agents of change who institute these processes. The extent to which firms transfer existing models within the firm and consciously attempt to replace existing behaviours is an important influence on the degree of local embeddedness. This will be influenced by how far firms draw on local tacit knowledge or whether agents of change are ‘imported’. Outside external expertise such as consultants or agents drawn from other parts of the organisation may be used to identify best business practice within the organisation, which is then cascaded to other parts of the company. Related concerns are whether firms use local personnel to draw on their local knowledge or whether they have a policy of parachuting in expatriate managers.

Much of the literature on embeddedness hitherto has focused on firms from market-based economies, particularly in Western Europe, Japan and the USA. However, State Owned Enterprises (SOEs) in Central and Eastern Europe and China emanate from very different institutional set-ups. Evolutionary and institutionalist approaches have contributed to an understanding of organisational transformation at two different levels of analysis. First, structural and institutional innovations have involved complex and incremental reconfigurations of institutional elements through a process whereby old legacies recombine with the new (Stark 1992). The particular form and content of transformation in the countries will depend upon their institutional assets at the beginning of the period (Chavance & Magnin 1997), their paths of extrication (Altavater 1998; Stark 1996) and the strategic choices of agents. Thus, emerging forms of property and corporate structures are the result of the reconfiguration and rearrangement of existing institutional elements. In particular, there has been the emergence of interwoven forms of ownership with networked modes of coordination and hybrid forms, which transcend a simple market or hierarchy distinction. Rather than a linear process fashioned according to some pre-ordained model, privatisation has given rise to a rich variety of different forms both within and between countries and a wide repertoire of coordination modes.

Second, institutionalists have extended their analysis to the restructuring and transformation of individual enterprises and the reorganisation of corporate arrangements. Modifications in the institutional set-up are two-fold. There are changes in the formal institutions in which markets are embedded, such as legal provisions and property rights. In addition, there is the ongoing transformation of the behaviour of agents with the emphasis on informal institutions such as individual habits, collective rules and social conventions (Hodgson 1988). According to institutionalists, the behaviour of economic agents is a product of both present incentives as well as historical processes. Winieckie (1992), Swaan (1996) and Swaan & Lissowska (1996) have analysed the slow adaptation and adjustment of SOEs by suggesting that the stock of routines, behavioural patterns and expectations reflect historical experience and are not suitable for the new environment. These ongoing patterns may have been entirely appropriate for the previous regime but are not considered by potential foreign investors as compatible with the new competitive conditions.

At the beginning of the transformation process, SOEs in China and Poland were characterised by a high degree of monopoly production; the absence of competition and a shortage economy coupled with the soft budget constraint meant that there were insufficient incentives to efficiency. Further, a high degree of vertical integration meant that although these firms were large, they were unable to benefit from specialisation. A lack of focus on ‘core production’ and high levels of social provision meant that production was unable to reap the benefits of economies of scale. Further, inappropriate knowledge of market concepts existed across a range of management functions such as HRM, financial reporting
and marketing (Hardy 1998; 2002b). The legacy of hierarchical and paternalistic manage-
ment, which provided few incentives, much less any autonomy for shop floor workers, was
considered to constitute a block on experimentation or innovation.

Political Embeddedness

The notion of political embeddedness is central to an understanding of how firms cross
borders. The legal framework of any society and the system of collective bargaining are
universally acknowledged as having a direct influence on economic strategies. Therefore, by
political embeddedness we refer to the manner in which economic institutions and decisions
are shaped by a struggle for power that involves economic actors and non-market institu-
tions, such as the state at a national and local level, interest groups and social classes. Thus,
the political context of economic action is made up of a complex web of interrelations and
competing claims and expectations. Strategies in industrial sectors take account of, among
other factors, the policies of the national and local state, the social balance between regional
employers and the degree to which the local labour force are prepared to tolerate change.

Political embeddedness is illustrated most clearly when power relations among eco-
nomic actors are inscribed in, or prescribed by, the legal framework of the state. Thus, we
need to understand firms as being reflexive and strategic in their negotiations and interac-
tions with states, and appreciate that these relationships will need to be forged and culti-
vated at a number of different spatial levels, through supra- to sub-national institutions. In
this sense, crossing borders is a fundamentally political act that requires negotiations and
interaction with a series of economic actors and political stakeholders. This is manifest in
direct political activities such as lobbying (Coen 1999). Therefore, flagship investments are
distinctly political creatures, in a way that their predecessors were not (Phelps 2000a; 2000b;

This suggests that TNCs and their affiliates have become much more sensitive to
opportunities for influencing and exploiting the disposition of local and national systems
of governance towards attracting and embedding foreign investment. There is growing
evidence that major inward investment projects are conceived and negotiated in a politically
sensitive way that has not been the case before (Phelps 2000b). The increasing intensity of
competition for mobile investment, coupled with the increasing ability and desire of inward
investors to read and compare local policies, highlights some of the limits of local institu-
tional capacity building to effect local economic development. Policy initiatives aimed at
embedding firms in localities entail a commitment of local capital and public resources in
the service of the competitive goals of the incoming company.

Beyond the formal institutions of national and local government are a plethora of insti-
tutions, including business organisations, development agencies and trade unions, which
taken together will exhibit varying degrees of institutional thickness (Amin & Thrift 1995).
An understanding of the nature of these linkages, the rules and conventions that govern
them and the distribution of power within them is vital to negotiations for entry and the
establishment of foreign firms. Local knowledge and industrial atmosphere are seen as
crucial in gaining competitive edge in a global economy where knowledge is increasingly
widespread and codified. The benefits firms derive from external economies of scale and
untraded dependencies (Storper 1995) will increase their competitiveness. Furthermore,
transaction costs will be reduced through the trust that is fundamental to such networks;
these deep linkages will reduce the mobility of firms and their motivation for moving to
another location.
The following sections discuss the notions of cultural and political embeddedness in relation to the two ABB case study investments in Poland and China. In order to inform and contextualise the discussion, the next section describes the general character and espoused corporate culture of ABB.

**ABB: Corporate Culture, Internationalisation and Transforming Economies**

Asea Brown Boveri, ABB, is a transnational corporation that employs 160,818 people in more than 100 countries (ABB Annual Report 2001). The history of growth in ABB has been strongly associated with the acquisition of competitors across different boundaries in order to stimulate rapid growth and market access, as well as creating global economies of scale in a highly decentralised organisation (see Zander, 2002, for an extensive commentary on the growth and development of ABB). Since 1989, ABB has been active in acquiring assets in emerging economies ranging from Eastern Europe to East Asia. Between 1990 and 1997, over 54,000 ABB jobs were eliminated in the US and Western Europe as 46,000 new jobs were added in the Far East and Eastern Europe (*Financial Times*, 1997), mainly through acquisition as they targeted established companies in similar fields.

*‘Think Global, Act Local’*

ABB is what is widely regarded as a modern multi-domestic corporation, which embraces a strong corporate culture that is the key foundation of their strategy and structure (Belanger *et al.* 2003; Leppänen 1994). Under its first CEO, Percy Barnevik, ABB embraced a vision that was said to ‘combine global scale and world-class technology with deep roots in local markets (Taylor 1991). This espoused culture, expressed as ‘[to] think global, act local’, is supported by a hybrid organisational form known as a matrix structure. This matrix structure purportedly enables firms to tap into global industrial know-how and local tacit knowledge, allowing a lateral rather than vertical flow of communication across multi-domestic plants.

In a matrix, one organisational form (based on products) is said to superimpose on another organisational form (based on geography). Instead of hierarchy wherein a product manager has control over regional managers or vice versa, both product manager and regional manager are placed at the same level with overlapping responsibilities in the new organisational matrix (Dunning 1993). For example, in the case of ABB in Poland a presence in the national economy was formalised in their matrix structure. This was intended to ensure not only access to decision makers but also to disseminate information regarding national issues, particularly when, in the case of Central and Eastern Europe, there are a large number of firms and profit centres operating within each economy. ABB needed a base inside the country in order to gain local knowledge and a national focal point for collecting tacit knowledge and codifying it for existing and new operations. An understanding of labour relations, the banking system and the establishment of high level contacts with customers were crucial to the operation of the business. Further, acquiring firms that were industry leaders and country monuments required a degree of local sensitivity in both their acquisition and restructuring. However, while this is the espoused organisation of the firm, the recombination of geographically dispersed knowledge faces the problems of tensions between process and structure (Zander 2002).


Investing in Transforming Economies

For ABB the need to internationalise has come from cost-push factors in market economies and demand-pull factors in emerging and transforming markets. For example, the market for power transformers and switchgear had matured, limiting demand in established markets; in emerging economies the need to modernise obsolete equipment through privatisation and significant infrastructural projects had created a high level of demand. Thus, the transformation of previously State Owned Enterprises (SOEs) and the deregulation of monopoly product markets had opened up new markets and intensified competition between big players.

Due to a presence in the 1970s through licensing agreements, ABB was able to gain a first mover advantage in Central and Eastern Europe and Percy Barnevik (then President of ABB) started negotiating with the Polish government about further investment in 1988, completing the first acquisition in 1990. By 1997, ABB was ranked as the twentieth largest investor in Poland and the largest single investor in the former Eastern Bloc. Percy Barnevik attests to the company’s enthusiasm in this regard with the following assessment of the former Eastern bloc:

We must stop looking at Eastern Europe as a potential burden, as a risk area which dumps products on us. They have a gigantic market where whole industries need to be rebuilt.
I truly believe we are in a ‘win-win’ situation (Obloj & Thomas 1998: 391).

In China, by 2001, the ABB group had set up 22 joint ventures and three wholly foreign owned enterprises (WFOE) and employed nearly 5,000 people (ABB, 2001). ABB China’s headquarters is located in Beijing and was set up in 1994. In China, ABB’s main products are power and distribution transformers, turbochargers, switchgear and power capacitators (ABB, 2001). Xiamen is the main production site for switchgear and hosts three joint ventures specialising in low, middle and high voltage switchgear production.

This article, for the purpose of comparing ABB’s approach in different geographical localities with varied institutional settings, presents an empirical study based on their entry and investment in two regions, Xiamen (China) and Wroclaw (Poland). The company’s involvement is briefly outlined in the remainder of this section and considered in more detail in the next section.

In Poland, in general, as well as Wroclaw in particular, most ABB acquisitions were made in the early 1990s at the beginning of the transformation process. In Wroclaw, ABB purchased the Dolmel State Owned Enterprise, which was one of the largest firms making power generators in the Soviet bloc. Negotiations took place between ABB Power Ventures and the Polish government, with ABB purchasing 100 per cent of the shares. The purchase of the company was controversial because, according to the Solidarity trade union, ABB used ‘cherrypicking’ tactics. The former SOE was split into three parts: Dolmel (core area of generator production), Dolmel Drives (engine production) and Dozemal, which owned the land, buildings and social assets. ABB bought Dolmel and Dolmel Drives, while Dozemal remained as an SOE and leased the land and buildings to ABB. ABB’s investments in Wroclaw are shown in Table 1.

In 1992, ABB Xiamen Switchgear Co. Ltd (AMV) was the first ABB joint venture in China and was considered as a flagship investment by the Chinese government. In 1995, AMV built the ABB industrial park to house their operations. ABB Xiamen Low Voltage Equipment Co. Ltd (ALV) was established as a joint venture in August 1994 and is currently housed in a rented factory within the Xiamen High Technology Development Zone. ABB
Xiamen High Voltage Equipment Co. Ltd (AHV), the most recent ABB investment, was set up in 1999 and is now located in the ABB industrial park. The entry year and activities of ABB in Xiamen are summarised in Table 2.

### Entry, Acquisition and Governance

Those accounts that posit the unproblematic transfer of corporate culture across national boundaries would suggest a similar experience in each of the case studies. This section considers in detail they ways in which the mode of entry, nature of the acquisition and emerging governance structure were quite different.

ABB’s entry strategy in Wroclaw was consistent with its previous involvement in Central and Eastern Europe in that it was precise about which enterprises or parts of these it was willing to acquire. Supply strategy was on the basis of global sourcing. In Xiamen, on the other hand, ABB’s involvement has been through joint ventures with key local partners, where control is less than complete. Further, they have relied extensively on local suppliers. Thus, in Wroclaw, ABB’s approach has not resulted in them becoming embedded in the locality to any great extent, whereas the opposite has been the case with their approach in Xiamen. The finer detail of each case is considered below, starting with Wroclaw and then

### Table 1


<table>
<thead>
<tr>
<th>Subsidiary</th>
<th>Activity</th>
<th>Employment in 1998</th>
<th>Employment in 2000 (projected)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABB Dolmel *</td>
<td>Power generators</td>
<td>600</td>
<td>600</td>
</tr>
<tr>
<td>ABB Dolmel Drives*</td>
<td>Engines for industry</td>
<td>450</td>
<td>0</td>
</tr>
<tr>
<td>ABB Instal</td>
<td>Switchgears and electrical installation</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td>ABB Centrum</td>
<td>Engineering components for power plants</td>
<td>70</td>
<td>70</td>
</tr>
<tr>
<td>Donako*</td>
<td>Metal stamping</td>
<td>300</td>
<td>300</td>
</tr>
<tr>
<td>Adtranz (ABB &amp; Daimler Benz)</td>
<td>Locomotive shell manufacture</td>
<td>1200</td>
<td>400</td>
</tr>
</tbody>
</table>

* Previously part of one former SOE, Dolmel.

Source: Authors.

### Table 2

ABB investments in Xiamen, 1992–1999

<table>
<thead>
<tr>
<th>Firm</th>
<th>Voltage</th>
<th>Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>ALV1994</td>
<td>Low voltage switchgear (400V)</td>
<td>Small to medium projects construction &amp; building materials</td>
</tr>
<tr>
<td>AMV1992</td>
<td>Medium to large projects (6,000–35,000V)</td>
<td>Industrial plants and utilities</td>
</tr>
<tr>
<td>AHV1999</td>
<td>Big state projects (above 110,000)</td>
<td>Three Gorges dam, Qinshan nuclear power plant, Guangzhou metro</td>
</tr>
</tbody>
</table>

Source: Authors.
As indicated above, ABB’s entry strategy in Wroclaw was entirely consistent with its approach to entry in other parts of Poland and Central and Eastern Europe, which was to negotiate in advance precisely how much of the business it wanted to take on and cede control of the rest to the state. In some acquisitions in Poland workers were picked by individual interview. As one ABB Executive put it, ‘...we don’t want the lazy ones, or the ones who are set in their ways. We leave them to the State’ (Financial Times 1993: 17). Financial risks were controlled by buying into existing capacity, which kept costs low, and it was rare to spend more than 20 million USD on an acquisition (Financial Times 1996) and sometimes this took the form of in-kind payments such as technology transfer. The financial manager at Dolmel suggested that entry by the brownfield privatisation route meant that financial ratios were better because they were not tied up with land and buildings, and that leasing rather than ownership of capital made the firm more mobile and less tied to the locality. Whereas ABB Dolmel received extensive investment and was locked into the ABB global network, ABB Dolmel Drives received no investment and was closed eight years after the acquisition in 1990.2

In Poland, the privatisation process, particularly of large SOEs, took place at a national level with local and regional government having little or no role to play; this was true of the Dolmel SOE, which was regarded as a flagship firm. Negotiations took place at the level of national government with no consultation or consideration of local issues. This reflects the weakness of local government in Poland, with the control of most SOEs lying in the ambit of central government within various ministries. Financial considerations regarding the central government budget and an ideological commitment to divesting firms as quickly as possible meant that speed was important.

ABB showed little enthusiasm for networking in the locality and subsequently its roots in Wroclaw were shallow and token. Membership of the local and British Chambers of Commerce did not translate into active participation in the business life of the locality. The mode of entry through buying into an existing factory that was negotiated at the national level circumvented local structures. The Polish management of the company, largely recruited from the previous SOE, was not locked into the formal or informal structures or networks of international managers in the locality.

The approach in Wroclaw, therefore, can be viewed as ‘big bang’ in nature, in the sense that all the assets were acquired as a result of a one-off negotiation. It also resulted in a clear and straightforward outcome with respect to ownership and linkages. By contrast, the approach in Xiamen, ABB’s first foray into China proper, was much more gradual and incremental and so the discussion below is lengthier as we consider the dynamics involved.

Basically, ABB’s entry into Xiamen was through joint ventures, starting with AMV in 1992, followed by ALV in 1994 and AHV in 1999. While each of these is concerned with different sectors of the switchgear market, they should not be considered separately because the partners involved have sometimes been the same or related and thus the earlier joint venture has been important for those that follow. There is, therefore, an interesting process to be outlined which helps explain the strategy pursued by ABB. In order to understand the ALV and AHV joint ventures, we have first of all to consider the AMV joint venture. Thus, the story unfolds chronologically below.

ABB’s initial entry into Xiamen was through a joint venture with the Local State Power company (LSP), a state monopoly in the provision of electricity, and with Xiamen Electric
Controlgear (XEC), a local switchgear equipment manufacturer. The attractions of each of the Chinese partners are fairly obvious, with LSP providing the major local market for such switchgear and XEC providing local productive capability. Competitive pressures were thus eased at both points of the value chain, that is, in terms of competitors and of customers. The original equity shares of each of the partners in this joint venture, ABB Xiamen Switchgear Ltd (AMV), were ABB (70 per cent), LSP (20 per cent) and XEC (10 per cent).

By 1995, these equity positions had changed as more partners came on board. As a result of purchasing 40,000 square metres of land for its ABB Industrial Park, two new joint venture partners emerged. The Xiamen High Technology Development Zone (HTZ) was integral to securing ownership given the nature of land holdings in China and the Xiamen International Bank (XIB), a licensed foreign bank, provided construction finance for the industrial park. In return, HTZ, in addition to the land purchase price, received a 5 per cent equity stake in AMV and XIB received a 10 per cent stake. The new equity shares in AMV by 1995 were thus: ABB (51 per cent), LSP (19 per cent), XEC (15 per cent), XIB (10 per cent) and HTZ (5 per cent). Formally, management control of the joint venture was vested in an eight-strong board of directors, drawn from the different partners, with ABB supplying four. Interviewees suggested, however, that despite the formal voting structure requiring a two-thirds majority, ABB exercised *de facto* control.

Given their early success with the AMV joint venture, ABB were keen to invest further in Xiamen and did so in 1994 through another joint venture, ABB Xiamen Low Voltage Equipment Ltd (ALV). ALV was approved by the Xiamen Foreign Direct Investment Executive Committee and designated as an enterprise of the municipality. Their sole partner in this, with a 30 per cent equity stake in the joint venture, was XEC, one of their original partners in AMV. By October 2001, ABB had taken over XEC, thus rendering ALV a wholly owned subsidiary.

ABB’s third joint venture in Xiamen followed in 1999. ABB Xiamen High Voltage Equipment Ltd (AHV) was concerned with the high voltage switchgear end of the market to target big projects such as the Three Gorges Dam. LSP, another original partner in AMV, was involved, with a 15 per cent equity stake. The other partner was Huadong State Power (HSP) with a 34 per cent stake, the remaining 51 per cent being held by ABB itself. Table 3 charts the equity shares of the different partners in each of these three joint ventures.

Clearly these joint ventures are of interest in their own right, but how they are related to one another is also crucial. LSP has played an important role for ABB both in terms of being an initial and ongoing partner in AMV, which has helped to firmly establish ABB in China, and as the main buyer for AMV equipment it has provided the joint venture with a secure

<table>
<thead>
<tr>
<th>Name/Partner</th>
<th>ABB (%)</th>
<th>LSP (%)</th>
<th>XEC (%)</th>
<th>XIB (%)</th>
<th>HSP (%)</th>
<th>HTZ (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AMV (1995)</td>
<td>51</td>
<td>19</td>
<td>15</td>
<td>10</td>
<td>–</td>
<td>5</td>
</tr>
<tr>
<td>ALV (1994)</td>
<td>70</td>
<td>–</td>
<td>30</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>AHV (1999)</td>
<td>51</td>
<td>15</td>
<td>–</td>
<td>–</td>
<td>34</td>
<td>–</td>
</tr>
</tbody>
</table>

LSP: Local State Power, XEC: Xiamen Electric Control Factory (SOE); XIB: Xiamen International Bank; HSP: Huadong (Southeastern China) State Power; HTZ: Xiamen Hi Technology Development Zone.

Source: Authors.
market position from the beginning. What is more, potentially, it has enabled ABB to strike up a further joint venture, AHV, where LSP’s relationship with the other partner, HSP, is important. Along with ABB’s growing reputation in China, facilitated by its flagship status in Xiamen and its role in key projects such as the installation of switchgear in the Great People’s Hall in Beijing, AHV was favourably positioned for forthcoming major state projects.

The fate of XEC is also worth comment. Initially positioned as a potential competitor to ABB, this local firm was co-opted by ABB through the AMV and ALV joint ventures. It provided the workforce for AMV in the initial stages. Subsequently, as it became financially unsound, due to previous ‘soft’ loans, ABB was able to take it over.

The initial joint venture, AMV, while apparently time-consuming and costly to establish, has paved and smoothed the path for the further joint ventures, ALV and AHV. Thus, the ‘complex and time consuming approval procedure’ complained about by Alexis Fries (Redding 1995) became less of a worry. The AMV negotiations took place locally between the three eventual partners with help from the local state, such that a business license was approved within a year. A crucial aspect from ABB’s point of view was the quality of their local representative, which enabled effective ties to be created with the local state. As one ABB manager said, ‘a good leadership is crucial to initiate and cultivate strong ties with the local state from beginning to end.’ In this respect, ABB was well served by a succession of overseas Chinese general managers who possessed a good degree of familiarity with the business culture in Xiamen. The importance of this relational aspect of doing business in China is reflected in the following quote from an ABB manager:

*We have cultivated good guanxi [relationship] in Xiamen. As a Special Economic Zone, Xiamen also offered better preferential policies than Shanghai at that time. . . . Xiamen also enjoys a distinctive locational advantage as geographically close to Taiwan and Hong Kong. . . . Without the close ties to the local government AMV would not be the only company within the group continuously achieving good profit and growth (PR manager, ABB Xiamen interview).*

Returning to the comparison of ABB’s approach in Wroclaw to that in Xiamen, it would appear that there are clear differences. The approach in the former, through acquisition negotiated at a national rather than local level, with no especial concern for linkages within the locality, has resulted in an FDI firm with little local embeddedness. The approach in the latter, through joint ventures with local partners, drawing upon the local state in the negotiations, and local networking including, for whatever reasons, a desire to source supplies locally, has resulted in an FDI firm with considerable local embeddedness. It is interesting to consider this apparent difference. In Xiamen, the local state’s high degree of autonomy and key role in its ownership of local assets were crucial for both the acquisition of land and finance. Poland’s embryonic structures of local government and governance were relatively weak, both in terms of finance and the ownership of firms and land.

It could be that the requirements for FDI in China to enter through joint ventures has been crucial or that negotiating the labyrinthine state bureaucracy necessitates a local partner, at least in the short run. Thus, there would be advantages to a host region being suspicious of FDI and, to some extent, adopting a locally bureaucratic approach as well as forced joint ventures with local partners. If this encourages the firm to network further in the local area and become embedded more within the locality, then it may provide more security, although in ABB’s case, clearly currency non-convertibility was also important in this regard. Further, the huge potential market available to ABB in China would also cause
them to proceed more cautiously. Their ultimate takeover of XEC could, therefore, be seen as an indication that their strategy in Xiamen, however, has not been so different in nature but only in pace.

**Inside the Black Box: Establishing New Institutions in the Workplace**

Having gained entry through brownfield or greenfield acquisition, ABB had to effect changes in or accommodate to the deep-rooted informal institutions inside the workplace. This can be understood either at the general level of collective understandings about the conduct of business in the locality or in the behaviour, routines and norms in the workplace of SOEs. According to Eyal *et al.* (1998):

> Post communist managers have been schooled in socialism, not in Ivy League business schools; they manage former state enterprises, not multinationals (58).

Before 1990, Polish management was paradoxically characterised by passivity (Winieckie 1992) and entrepreneurialism, which manifested itself in rent seeking (Martin 2002). Under communism, managers were constrained from above and below. They were constrained in decision making by the imposition of nationally determined targets and quotas from ministries. From below, Works Councils established at the beginning of the 1980s had the power to dismiss managers, and in one firm in the same region the Works Council had dismissed eight managers between 1990 and 1995 (Hardy 2002a). While this produced managerial paralysis in some firms with strong inertia and little tolerance of change and uncertainty, in other firms managers had energetically been involved in rent seeking whereby company assets were used for private and personal gain rather than organisational objectives.

Managers at the beginning of the transformation period had scant knowledge of western-style managerial functions that prevailed in competitive markets. Captive markets meant that little attention was paid to quality control, and controlled prices gravitated against any understanding of costs and western-style accounting. Human resource management did not exist as there was little training and the personnel function only extended to the payment of wages.

Incoming firms had to secure the agreement of the Works Council for privatisation. However, acquiescence was by no means automatic and in two major SOEs, Jelcz and Polar, in the region Solidarnosc (Solidarity trade union) successfully contested privatisation by foreign investors (Hardy 2002a). However, attitudes to foreign investment were mixed and the Solidarnosc branch in Dolmel reflected the predominant view that investment by a transnational firm was the best way of securing the future of the firm; they were fully prepared to trade in the social wage of welfare provision for a higher than average wage for the locality.

**Agents of change and HR Practices**

ABB exhibited different ways of dealing with the deep-rooted nature of these workplace rigidities and legacies in Poland and China. The approach of ABB in Poland in trying to transform the management culture was much more akin to ‘shock therapy’. The company had given priority to creating a core group of global managers who were cultivated by rotating people around the world to give them line experience in three or four different countries.
This was expected to create a global perspective and to make sure their loyalty was to the company, not to individual countries or branches. According to Percy Barnevik, these global managers were required to understand the local culture but also, ‘to sort through the cultural debris of excuses and find opportunities to innovate’ (Taylor 1991: 481). Therefore, shock troops comprising ABB global managers and consultants were sent in to administer a short sharp shock and effect rapid change in the structure and culture of the organisation in Poland:

ABB corporate-approved solutions were transferred and forcibly implemented into Polish firms, immediately replacing the former well-established routines, recipes, procedures and structures of the centrally planned economy. . . . They did not initially perform any sophisticated diagnosis or analysis of local conditions or develop a strategic vision for the transformation process. Rather they forcefully implemented market enterprise discipline in the acquired former state-owned forms by a series of high-speed actions (Obloj & Thomas 1998: 392).

However, in both Wroclaw and Xiamen one of the main tasks was to create a small group of managers who could be left to run the firm once the ‘agents of change’ had moved on elsewhere. In Poland, the process of creating new managers was two-fold. The first element included extensive training sessions to identify and select managers from the previous SOE who were most likely to adapt and change. These individuals were then put through intensive education and training to expose them to the principles and practice of the market economy in general and the ABB management system in particular. Rather than using local suppliers of training, education for this layer of managers generally took place at the ABB Management Centre in Warsaw. This group of selected Polish managers were also sent on benchmarking tours to other firms in the ABB Business Area to understand best practice and become imbued with company culture. This was an ongoing process reinforced by biannual meetings of middle management functional teams within the Business Area.

Previously managers had been poorly rewarded and in some cases had lower salaries than production workers. Therefore the second element of creating a new layer of managers was concerned with remuneration and status. The material incentives and prestige of these managers were substantially increased with large wage increases, company cars, remodelled offices and extensive opportunities for foreign travel for meetings and training. This was aimed at creating a distinct layer of managers whose material conditions were much better than those of blue collar workers and established a much greater degree of distance than had previously existed. Further it was aimed at retaining the best managers and putting an end to the incentive for rent seeking.

In Poland, intense restructuring took place in the four-year period from 1990 to 1994, after which ABB Dolmel had 100 per cent Polish management, the consultants having moved on and the expatriate managers transferred elsewhere. The matrix structure, with constant financial reporting and manuals supplied to HRM and supply managers regarding ABB policy, meant that there was strict arm’s length control with little room for manoeuvre for incumbent managers. The ABB Business Area manager decided which market the firm could sell in and the level of investment, whereas R&D continued to take place in Switzerland. The main areas for which the factory workers and managers had responsibility were cost reduction and productivity, although even here targets were handed down from the Business Area.

In the case of ABB managers, little allegiance to or nostalgia for the previous SOE was exhibited. Since the acquisition, however, they had not only experienced profound changes
in organisation but also a sharp intensification of work and much higher levels of accountability and monitoring. Although the rhetoric of consultation and drawing on local knowledge was used in respect to the restructuring process, one manager quite explicitly stated that change had been imposed and all decisions were taken outside the country.

The greenfield nature of the investment in Xiamen meant that disembedding the established routines and behaviours of a particular workplace posed less of a problem than in Poland. Young and technocratic engineers made up the major workforce of ABB firms in Xiamen. By the time that our interviews were completed, in September 2001, in ALV, the average age was around 29 overall and less than just 35 for the management. In AMV, the average age was 31 for all employees. This age distribution is seen as more receptive to new ideas, as well as the English language, commonly used in these workplaces. Apparently unaware of the implication for age discrimination, one interviewee considered that older workers, typically those above 40, tend to experience more difficulties in communicating in a foreign language, namely, English, and, therefore, are seen as less receptive to new ideas. The age criterion is also used to screen off those who have allegedly developed certain ‘habits’ from working within SOEs in favour of younger, technocratic engineers or those with work experiences in other TNCs or from other ABB joint ventures.

ABB’s attempt to disembed the constraints of the local workplace is also reflected in its selection process. The recruitment of employees generally consisted of three channels: first, head hunting from other companies; and second, direct recruitment of graduate technicians and engineers from other universities and colleges in inland provinces; and third, a further source of skilled workers came from an internal exchange arrangement with an ABB joint venture partner in an inland province. Despite its linkages with local education institutions in providing training, ABB did not recruit directly from local universities. The use of graduates from other localities reflected the relatively high labour cost in Xiamen.

Nonetheless, the HR manager showed particular concern about the high turnover rate among its management and administrative staff, which stood at 10 per cent of people leaving their jobs within a year. According to this manager, ABB provided a platform for those younger graduates who want to have good training before embarking on another job elsewhere for a higher salary. It was suggested that the retention rate for other workers, however, was better because of the company’s attractive welfare provision in terms of pensions and medical treatment. It was also suggested that there is a high degree of internal mobility between jobs. The internal mobility measured by job rotation rate was about 43 per cent in AMV.

In contrast to ABB in Poland, the training of managers in Xiamen takes place in-house and in collaboration with prestigious education institutes in China and abroad. For example, the quality management department had a training budget around 420 USD per head by the time that our interviews were completed. One manager in ABB was sent to a prestigious overseas business school for intensive management and technical training. The in-house training followed the ABB programme with courses given by the training department. In ALV, a mini MBA course is provided by the training department and the ratio of people completing the course was around 90 per cent of all employees in middle management. The purpose of this course is to develop a ‘progressive’ management team by instilling ABB’s corporate culture. The company also paid the expenses of those studying the part-time MBA course at Xiamen University.

In the early stages of development a small group of AMV workers were sent to Germany to receive technical and managerial training in the so-called ‘Blue Collar’ training
programme. These workers would later constitute the core technical supervisors in the production line and facilitate technology transfer. The newly-recruited production workers received technical training from older workers through on-the-job demonstration and were supported by technology such as Enterprise Resources Planning (ERP) using on-site computers. Because of the greenfield nature of AMV, the whole production process and its associated technologies were transferred directly from ABB. These not only included the factory layout but also flow charts with very minor adjustments for local conditions. In ALV, the factory is still housed in a rented industrial park and all machinery is provided by ABB. In this regard, there is little resistance to the adoption of ABB corporate culture and technology in both cases.

In both Poland and China, ABB had to adapt to local legislation regarding HR practices. However, these could be regarded as fairly minor details in the context of the strong corporate culture that was transferred to managers and the shop floor of both workplaces. As we have seen there are only minor variations in how management practices were implemented. Poland presented a greater challenge because of embedded routines that were the legacy of the brownfield acquisition. Nonetheless, the managerial culture in both localities, in all investments, was remarkably similar.

Supply Linkages
The high level of vertical integration in SOEs meant that most components were made by the firms and supplied internally; this often even extended to the production of office furniture. Sourcing outside the firm was either motivated by political concerns or simply the product of historical accident. The lack of competitive markets meant that components were poor quality and their real cost in the productive process was the result of arbitrary controlled prices.

Sourcing is one of the most contested issues in the entry and arrival of foreign investments. From the perspective of local and national governments, the multiplier effect of incoming investment is positively related to the level of local sourcing. For incoming firms, the quality and price of supplies and components was critical to their financial performance. In the case of ABB, there is strong internal competition for contracts between profit centres in different locations. The managerial performance of each division is measured in terms of the rate of return on capital for each division. The ‘internal coercion’ (Mueller & Loveridge 1997) from the internal market disrupted existing institutional arrangements.

Although the system of internal cost control features prominently within an organisation like ABB, its adaptation to the locality and new environment varies considerably across national boundaries. In theory, profit maximisation could be achieved through either global or local sourcing or a mixture of both depending on market and product complexities, cost and quality, and ultimately proximity. Decentralisation to local units not only depended on their proximity to final market, but also the corporate strategy in a particular locality. Equally, political embeddedness in the form of host state intervention tends to be local-specific. The experiences of supply management in China and Poland suggest two rather different kinds of story.

In the case of Xiamen, local sourcing was firstly the result of the reforms instituted in 1990, which made local content a legal requirement once a joint venture was incorporated. Second, local sourcing was a defensive response to restrictions and constraints embedded in national economic institutions. Global sourcing was constrained by a tight budget in which the firm lacks enough foreign currency to engage in global sourcing activities, because, the
Reminbi, China’s national currency, was not freely convertible in the 1990s. This would entail the firm having to concentrate its limited funds on the importation of key components. Thus, in Xiamen, according to the quality manager, for all the components used in production, AMV has achieved 90 per cent local sourcing (within Fujian Province) with the sourcing of mechanical components at 100 per cent in China. In ALV, local sourcing is about 60 percent. The CEO of ABB Asia Pacific suggested the aim was ‘to maximise local content as quickly as possible’ in response to the convertibility-funding problem (Redding 1995).

However, as the firm would also have to meet its quality standards, local sourcing would have to be implemented using a set of international standards such as ISO 9000. In China, ABB’s policy was to cultivate more long-term relationships with suppliers over time. The statistics provided by the AMV quality manager indeed suggested a high level of supplier linkages. This manager revealed that in 2000 there were 60 provincial suppliers, each with an average annual order of 4 million RMB (0.5 million USD). These provincial suppliers accounted for 90 per cent of the local sourcing. Because of these strong linkages, the firm was contemplating moving towards a deeper level of Just-in-Time (JIT) production, a partial JIT system having already been in operation in Xiamen for many years.

In Poland, ABB’s national negotiations regarding the acquisition had involved a commitment to local sourcing; however, this was a ‘gentleman’s agreement’ which there was no way of enforcing. ABB’s policy on suppliers was much more arm’s length and by the book and proximity was only important in as much as it reduced costs, not because of any perceived value of face-to-face relationships. The classification of suppliers was consistent with ISO 9001 and internal ABB rules. Level 1 suppliers produced less important items where lead times were short. Leverage items were those items with a higher complexity and level of technology; whereas bottleneck items were those with market complexity, that is, where lead times tended to be long. Finally, strategic items were those that had a higher technological complexity and longer lead times and were central to the production process.

Suppliers themselves were then classified according to a number of criteria. Level 0 comprised the entire potential pool of suppliers and Dolmel could not buy any goods or services from this sector. A level-one supplier had to have a commercial and technical evaluation, which involved a visit to check the history of the firm, and the production arrangements. Level 2 is qualified supplier status. This was more complicated because the firm had to complete a Supplier Information Questionnaire (SPIQ) and it was preferable, but not mandatory that the firm had ISO 9001. At Levels 3 and 4, ISO was mandatory and the Supplier Performance Rating (SPR) had to be higher than 76 or 90 per cent, respectively. The record of suppliers is constantly monitored and SPR is based on their performance in the last period measured by criteria such as flexibility, price and delivery dates. If a supplier could get on ABB’s list of qualified suppliers (kept by the Business Area in Switzerland) it could potentially supply any firm in the Business Area.

ABB put much greater emphasis on the cost reduction of supplies and worked with suppliers to reduce costs on an annual basis. ABB had a (two-way) open book philosophy whereby they showed their costs, order book and information about competitors to potential suppliers to explain their needs for the relevant period. Suppliers had to reciprocate by giving information about their financial position, how they would fulfil production requirements, and their plans for the investment. These stringent criteria often ruled out local suppliers in favour of established firms in their global supply network.

ABB Dolmel did eventually use a Polish supplier for a key component, but this was a long process. ABB had been working with a potential strategic supplier since 1992 and were
finally given permission to use them in 1998. The firm Bochnia, a spin-off from Huta Sendzhimira Steel Works, produced magnetic steel, which constituted Dolmel’s biggest volume of purchases. Bochnia was based 300 kilometres from Wroclaw, but the relationship with the company was motivated by the possibility of substantially reducing costs, through both transport and labour costs, rather than a preference for face-to-face contact and communication.

In Poland, institutions at the local and national level were unable to exert sufficient pressure to ensure local sourcing. Codified company policy on suppliers and coercion from the firm’s internal market resulted in sourcing driven by cost reduction and without geographical constraint. In contrast, in Xiamen the exertion of significant institutional pressure backed up by law and restrictions regarding currency led to a high degree of local sourcing. In China, the benefits of this extended beyond a simple multiplier effect, as supplier firms had to upgrade their operations to conform with ABB quality standards, which in turn opened up the possibility of supplying other foreign investments.

**Conclusion**

From the point of view of political embeddedness, ABB has demonstrated reflexivity and adaptability in crossing national boundaries. The different configurations and relative strength and autonomy of local institutions in Wroclaw and Xiamen implied contrasting corporate strategies. In Xiamen, it meant that a high level of engagement was necessary and entry took place through joint ventures with local SOEs. This pragmatic approach meant that the first investment was viewed as an experiment by both the locality and the firm. After the cooperation was considered a success two further joint ventures were established over the next seven years. In contrast, in Wroclaw, where the embryonic local institutions were weak, engagement with institutions took place at a national level as a ‘one-off’ negotiation, and discussions circumvented local actors, focusing on the firm rather than the locality.

The emergent governance structures were dependent on the mode of entry. In Xiamen, a process of recombination was apparent, where a system of complex cross shareholding developed between the incoming and local firms, local government and local financial institutions. ABB in Wroclaw acquired all assets at once, and the agreement to lease rather than buy assets facilitated rapid restructuring and exit with few sunk costs. In these contrasting cases, the institutional configuration and regulatory and financial capacities of the localities were crucial as far as negotiating the terms of entry of firms and the emerging governance structures. In turn, these had a profound impact on the degree and nature of embeddedness in locality.

Within the workplace a different picture emerges. The cultural embeddedness of ABB is reflected in a strong espoused corporate strategy, which meant an emphasis on transferring the norms and routines of the firm in terms of management style, logistics and HRM to displace the legacies of the planned economy. Corporate culture involved collective understandings about a particular way of organising production and the behavioural aspects of employees. With accumulated knowledge and learning regarding the acquisition and restructuring of firms ABB had tried and tested strategies for effecting these rapid changes, particularly in Poland where behaviours were strongly embedded in the existing SOE. In the area of HRM, the firm was able to tap into local tacit knowledge and recruit the most suitable candidates. In terms of management, this was focused on recruiting and retaining
educated and ambitious employees and, in particular, those that were deemed to be able to easily assimilate the corporate culture of the firm. Production workers were also selected in terms of both their educational qualification and their receptiveness to new ways of working.

However, in terms of logistics and supply linkages, local institutional conditions were influential. In Wroclaw, Poland, ABB was more or less able to transfer codified practices regarding sourcing, which resulted in a low level of local linkages, initially at least. In Xiamen, China, institutional conditions meant that ABB had to be more adaptive and flexible in sourcing, which meant much higher levels of supply linkages with local firms.

By focusing on these two aspects of embeddedness there is an apparent paradox. In terms of political embeddedness, the firm exhibited reflexivity and adaptability and local institutions were highly influential in terms of entry and acquisition and subsequent governance structures. In contrast, the strong cultural embeddedness of the firm meant that policies relating to HRM were less adapted to local conditions and within the workplace the firm was able to exert institution-bending behaviour. Institutional conditions, however, in both localities were crucial for shaping emerging supply relationships, with implications for the multiplier effect in the local economies.

How strong or perhaps how permanent such local embeddedness will prove to be is, of course, intriguing but can only be answered at some point in the future. The fate of XEC, which started as a partner and was eventually taken over, is interesting in this regard. Such institution-bending behaviour leads us to consider whether the approach used in Wroclaw, after all, is being employed in Xiamen. Taking a longer-term view, then, a key question is the extent to which the firm is exhibiting the same strategy working under more severe institutional constraints, which may ultimately slow its pace rather than fundamentally changing the nature of its corporate strategy with regard to entry and acquisition.

Notes

1 The cases are written as of 2001, which is consistent with when the interviews took place. Clearly more up-to-date information is available but it would have no material impact upon the arguments we are presenting here.

2 In this case, ABB were not able to acquire exactly what they wanted as part of the negotiations. The form that privatization took in this instance meant that assest were bundled for selling off, and consequently ABB asset stripped and closed firms considered to be peripheral to their activities or surplus to requirements.

3 In 2001, Dolmel was sold to a French transnational. Middle management had no idea that the acquisition of the firm was under discussion. They arrived at work to find they were working for a different firm.

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