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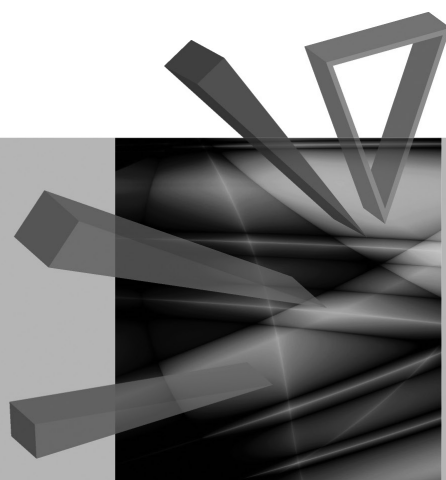
Uniwersytetu Ekonomicznego we Wrocławiu

RESEARCH PAPERS

of Wrocław University of Economics

256

Innovation Sources of Economies in Eastern Asia



edited by

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Publishing House of Wrocław University of Economics
Wrocław 2012

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Cover design: Beata Dębska

The project has been financed by the National Science Centre
according to the decision No. DEC-2011/01/D/HS4/01204.

This publication is available at www.ibuk.pl, www.ebscohost.com,
and in The Central and Eastern European Online Library www.cceol.com
as well as in the annotated bibliography of economic issues of BazEkon
http://kangur.uek.krakow.pl/bazy_ae/bazekon/nowy/index.php

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www.wydawnictwo.ue.wroc.pl

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Wrocław 2012

ISSN 1899-3192

ISBN 978-83-7695-210-9

The original version: printed

Printing: Printing House TOTEM

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CULTURAL DIFFERENCES IN THE CONTEXT OF MANAGING AN INTERNATIONAL CORPORATION WITH SWEDISH AND CHINESE CAPITAL

Summary: Due to globalisation and the fastrate of economic development, multinational companies are getting more and more popular. They are created as an effect of beneficial business agreements. One of these agreements is mergers. Mergers of companies from different cultures result with new challenges for managers. They are connected with cross-cultural management, mainly with cross-cultural communication. In the article the author presents connections between culture dimensions and management styles, staff behaviours and cross-cultural communication. The goal of the article is a proper presentation of reasons and ways in which the merger between the Chinese company Geely Automobile and the Swedish brand Volvo influences multinational corporation, when it comes to changes in Geely's management.

Keywords: multinational companies, merger, cross-cultural management, cross-cultural communication, Geely Automobile Volvo.

1. Introduction

Globalisation processes and the fast pace of economic development stimulate the establishment of multinational companies, the management of which requires accounting for cultural differences between target markets. Culture is a factor which strongly affects a management style, since it influences thinking, feeling and behaviour patterns, thus determining achieved results and general efficiency of a company. The effectiveness of managing a multinational company depends on the adopted model, among which the following models need to be indicated: the cultural dominance model, the coexistence model and the model based on intercultural cooperation.¹The last model is considered the most effective in international management. It allows the exchange of diverse viewpoints and ideas with people from different cultural circles, thus enhancing creativity and becoming a basis for mutual understanding, which is indispensable for achieving goals of a given

¹ A.K. Koźmiński, *Zarządzanie międzynarodowe*, PWE, Warszawa 1999, pp. 217–219.

organisation and competitive advantage on the market. The application of this model decreases the probability of conflicts inside an organisation and facilitates solving them. This is particularly important in a situation in which completely different cultures clash, which is the case, e.g., when enterprises from diverse cultural circles are merged. The cases of mergers with Chinese enterprises, which implement strategies of international expansion, deserve attention. The aim of this paper is to present a forecast impact of cultural differences on international management of a corporation established as a result of the merger of the Swedish Volvo company with the Chinese Geely company. The analysis was conducted as a cross-section of Hofstede's cultural dimensions, i.e., power distance, individualism, masculinity and long-term orientation. Hofstede's model is one of the most often used concepts applied in various research studies on cultural differences in the context of managing an international corporation in crosscultural environment, even though there exist debatable beliefs regarding this model.

Swedish and Chinese managers represent completely diverse cultures, which leads to differences in the manner of thinking and behaving of the representatives of these countries. Hence, mutual cooperation involves the necessity of comprehending the management style and the manner of conduct of the employees of a partner company, which unfortunately often requires a revision of certain basic principles applied by a given company. It is worth noting that Chinese managers are famous for dodges, while Swedish managers prefer competition. The Chinese perceive the notion of leadership from a different perspective, since leaders are not used to listening to their subordinates and adopting team's viewpoint. Decisions are made by leaders based on their experience and knowledge. Participation of not only managers or owners but also of lower-level employees in decision-making processes is a characteristic feature of the organisational culture in Western countries.

The relations between the dimensions of culture and management are presented in Table 1. The impact of culture on the management style, employee behaviours and communication system is demonstrated based on the analysis of secondary sources.

2. Management style

The data in the table make it evident that the level of power distance differs in both countries, which results in different management styles. Due to large power distance in Chinese companies and highly hierarchised structure, subordinates are afraid to contradict the opinion of their superiors and decisions are not subject to team discussion. In Swedish culture, in turn, which is characterised by small hierarchical distance and large individualism, decisions are subject to thorough discussion prior to their final implementation. The clash of these diverse manners of making decisions may trigger conflicts.

Significant differences between Swedish and Chinese cultures refer to the long-term orientation. The Chinese management model is characterised by a high

indicator of long-term orientation with a high level of hierarchy, which means that this model is strongly oriented on the future and focused on generating savings and pursuing a goal by undisputed performance of the decisions made by superiors. Hence, it is difficult to reconcile the Chinese management model with the Swedish one. The Swedish perceive the short-term orientation applied by them as one of the sources of greater effectiveness and efficiency. These cultural differences intensify the occurrence of communication barriers.

Table 1. Matrix of culture's influence on communication between Sweden and China

	Power distance		Individualism		Masculinity		Long-term orientation	
China Sweden	China (80)	Sweden (31)	China (20)	Sweden (71)	China (55)	Sweden (5)	China (118)	Sweden (33)
Management style	Centralisation of power	Decentralisation of power	Decisions made by the manager	Decisions made as a result of discussion	Resolute and assertive manager	Manager relying on intuition, striving for reaching consensus	Tendency to adopt new management styles	Respect for one's own management style
Employee behaviour	High level of emotional distance towards superiors	Equality with superiors	Ideas kept within one group	Ideas shared with the entire organisation	High pressure of life; work as a source of living	Low pressure of life; work as a source of self-fulfilment	Focus on long-term success	Focus on profits in the short term
Communication system	High level of hierarchisation	Low level of hierarchisation	High-context communication	Low-context communication	Formal communication	Flexibility; accepting possible incidents	Visions of actions directed at the future (flexible)	Visions of actions directed at the present and the future

Source: R. He, J. Liu, *Barriers of Cross Cultural Communication in Multinational Firms*, 2010.

Taking into consideration the level of masculinity as a feature of culture, extremely varied results are obtained among these countries. Chinese managers are dominant in decision-making processes, while Swedish managers rest their actions on intuition striving for reaching a consensus. Such different orientations of managers certainly result in the occurrence of further barriers in communication. In China the manager is required to possess complete knowledge on individual areas of company's activities and all aspects related thereto because this is necessary for determining company's goals, taking proper decisions and shaping responsibility. In Sweden, in turn, the manager's role is to stimulate mediation among subordinates in order to coordinate employee actions better, strengthen them as a group and increase the effectiveness

of team work. The manager is expected to motivate employees in an appropriate manner and use their potential to achieve pursued goals.

The application of the Swedish style in managing Chinese employees may cause fundamental problems with motivating them to work as these employees need detailed instructions and decisions. Similarly, the excessively formal approach of Chinese managers may not meet the expectations of Swedish employees.

3. Employee behaviour

Employees are a fundamental resource of each organisation and therefore it is necessary to motivate them in an appropriate manner so that they achieve high efficiency and enhance an organisation with a simultaneous increase of employee satisfaction. In Swedish companies employees are proud of their work and of what they do for their enterprise. Work is very important in forming their identity, striving for their personal satisfaction and development. Employees of Chinese companies, in turn, have different expectations, since they hold the conviction that financial achievements and strength are more significant. Therefore, what they value most is competition and achieved results, which are features of a culture characterised by a high degree of masculinity.

Moreover, employees in Chinese companies are closely related with each other and their relations, particularly on the professional plane, are relatively complex, which is typical of the high-context culture. This results from a long service in an enterprise and a strong relation with a company. In consequence, the Chinese are more prone to work in teams. However, it needs to be observed that this type of interpersonal intimacy does not go beyond the company where they work. Hence, people working in the same organisation communicate without substantial obstacles, whereas considerable difficulties arise with regard to people from a different organisation. In the low-context culture, in turn, people coming from different cultures establish relations without any problems. This is why the communication between the managers from the low-context Swedish culture and the representatives of the high-context Chinese culture is not easy. On the one hand, the Swedish are afraid to express themselves and their own expectations in a way they would do so among each other, and on the other hand, the Chinese try to contact with their partners only in the case of emergencies. It is obvious that expressing expectations by both parties in full is a condition of efficiency. Otherwise, the company has difficulty in creating appropriate conditions for cooperation and, what follows, taking advantage of development opportunities. Reprogramming people originating from the high-context culture so that they get accustomed to functioning in the low-context environment, and the reverse is both extremely difficult and time-consuming.

The significant differences in the behaviours of Swedish and Chinese employees result also from the nature of the professed orientation: short-term in Sweden and long-term in China. The long-term orientation, most often applied by Chinese companies, encourages a different perception of profit and loss. Therefore, the Chinese believe

that decreasing short-term profit may be beneficial. Hence, they decide to use low quality materials and reduce costs in order to achieve an increase in future funds. However, such practices negatively influence the reputation of not only the brand but also of the whole company. Conversely, for the employees of Swedish companies the brand and reputation of a company is too important to risk its depreciation by manufacturing low-quality products in order to decrease manufacturing costs.

4. Communication system

In multinational companies the communication system is particularly significant for the international information flow. An efficient communication system comprises the links allowing company's employees to communicate not only information but also professed values, which is particularly important when taking joint initiatives.

A Swedish company, such as Volvo, is perceived by recipients all over the world as a dependable company which ensures high quality and reliability of offered products and which wishes to maintain its good reputation that has been earned over the years of its operation on the market. The values and goals inscribed in the mission and vision refer to both the present and the future. The vision and mission of the Chinese Geely company, in turn, refers strictly to the future. This difference between the orientations of both companies hinders mutual understanding.

The reasons for the diversity of the communication systems between both companies are a derivative of the differences in the level of hierarchical distance. In a Chinese company even the most insignificant problem needs to be reported to the superior in order to specify the solution and direct its implementation to a particular division. Hence, it may be said that the Chinese communication system is a purely formal one, whereas in Swedish companies this system is more open as it accounts for the possibility of the occurrence of unpredictable circumstances and situations.

Due to the differences in management styles and employee behaviours, communication between companies from Sweden and China is not an easy task and it leads to numerous obstacles. The major barriers in intercultural communication of such companies arise from the following:

- the lack of mutual understanding and specification of one's expectations,
- differences in emotional distance towards power,
- diverse expectations towards managers,
- diversification of the abilities to deal with the occurrence of incidents,
- different languages and geographical distance,
- different motivations for undertaking work.

Hence, the best way to achieve desired communication effects in a multicultural company is mutual understanding of partners based on mutual learning and adapting in the multicultural perspective.²

²R. He, J. Liu, *Barriers of Cross Cultural Communication in Multinational Firms*, 2010; R. Gesteland, *Różnice kulturowe a zachowania w biznesie*, PWN, Warszawa 2000.

5. Merger of enterprises and its managerial implications

A merger is an operation consisting in a combination of two or more enterprises or an establishment of a new entity as a result of taking over an enterprise by another one. It constitutes a certain business agreement concluded by parties to achieve certain goals. The major premises for taking actions such as mergers are above all the wish to expand present output markets and obtain cheaper supply sources by getting access to new markets and increasing access to the present market as a result of evading customs and administration barriers established by the country of a partner. Striving for the achievement of the synergy effect and the scale effect among others by joint creation and mutual exchange of technologies between the companies operating in a broader area also needs emphasising among the premises for a merger. A merger allows also for the reduction of incurred risk by its diversification. Most importantly, however, a merger seems to be an exceptionally good solution when one wants to stimulate the development of their company, improve their results achieved by seeking a sufficiently strong stimulus for their long-term development.³

The merger as a result of which the Chinese Geely Automobile Company purchased the Swedish Volvo brand from the Ford group for USD 1.8 billion took place in March 2010. It was the greatest foreign transaction performed by this Chinese company. Both parties had negotiated the terms and conditions of the agreement, which had a full support of Beijing, for over two years.

One of the premises for the merger of these two companies was the expected exchange of the benefits lying in the experiences and values of Volvos as well as in the potential and strategy of Geely Automobile. Volvo is a famous brand valued for its high safety standard, high quality and reliability of sold cars. The following are the four major values professed by the company:

- precision, skill and care for details in order to achieve high quality of the manufactured vehicles,
- appearance based on the passion for simplicity,
- reduction of exhaust emission with simultaneous increase in efficiency and care for the environment,
- striving for ensuring safety of its customers.⁴

Geely also aspires to manufacture the safest cars in the world, which would be at the same time the most efficient and environmentally friendly. This largest and first private (hence rare in China) car manufacturer strives for enhancing its brand by Volvo's intellectual capital, providing it in exchange with access to the rapidly developing Chinese market, which can boast high potential and high profitability.

³ C.M. Christensen, R. Alton, C. Rising, A. Waldeck, Nowe zasady fuzji i przejęć, *Harvard Business Review Polska* 2011, November, pp. 51–60.

⁴ <http://www.volvocars.com>.

Geely's founder, Li Shufu, who became also a member of Volvo's management board, assumes that both companies will remain on the market as independent entities. As a consequence of the merger, Volvo expanded its supplier/dealer network by 81 Chinese cities and is planning to start manufacturing cars in Chengdu, in Sichuan Province Geely, where the brand has not been that popular yet.

Volvo aims at increasing its sales in China by over four times in 2015, i.e., up to 200,000 cars. A significant step in promoting these vehicles was the employment of a basketball star from the New York Knicks team, Jeremy Lin.

Under the technology transfer agreement Geely has full access to Volvo's technology, the use of which on the Chinese market will reinforce Geely's position and its competitive advantage. Geely is planning to create a new make, Gelly Automobile, for a mass Chinese recipient with the use of Volvo's technology. The relations between these two companies are described by Gui Sheng Yue, Geely's executive director, as brotherly relations. There is no competition between them because they are oriented on different target markets. Geely sells vehicles with the mass recipient as the target, whereas Volvo aims at the luxury goods market. The cooperation between Gelly and Volvo has been relatively successful thus far.⁵

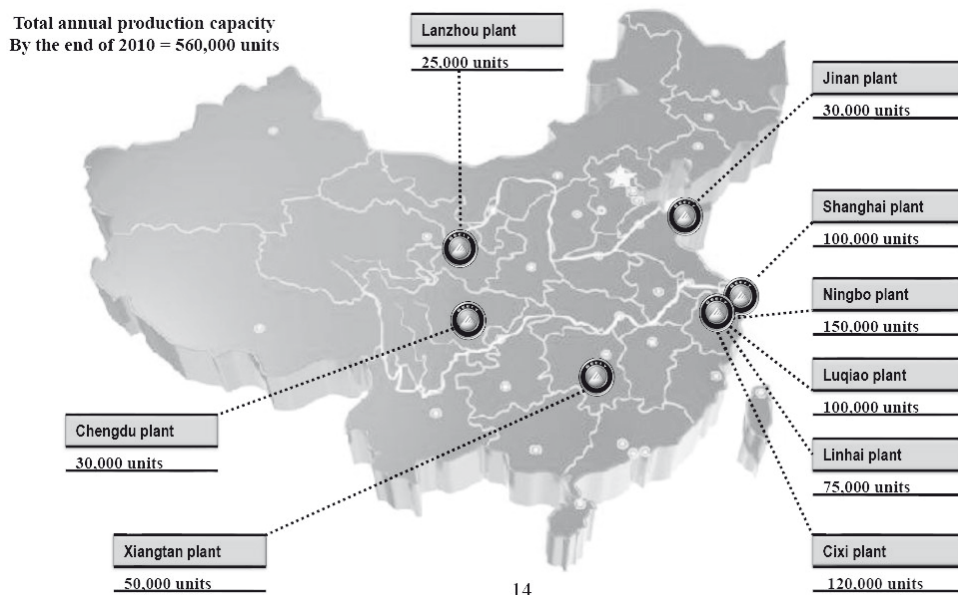


Figure 1. Geely Automobile's production facilities

Source: www.geelyauto.com.hk/, Geely Automobile corporate presentation, December 2011.

⁵ <http://www.reuters.com/>; <http://news.flanders-china.be/>.

Geely Automobile is a very active company on the Chinese market; its ambitions involve expansion home and abroad. By introducing significant changes in both makes and production chains, Geely created three new makes promoted in all 1,000 showrooms with which it maintains trade relations. The company's achievements include the development of the technologies that are crucial for the pursued activity, the establishment of nine industrial plants in China (see Figure 1) with the total capacity of 600,000 units per year and 4% of the company's share in the Chinese sedan car market. Moreover, the company sells 40,000 cars per year to foreign markets. It has access to a range of valuable resources and expert's opinions by establishing strategic alliances with key international suppliers, focusing on maintaining high quality of services and high level of customer satisfaction.⁶

Geely is the first Chinese automotive company which presented itself at a car show organised in Detroit. Undertaken actions, the potential of the company and its strategic aspirations permit the expectation of a further enhancement of company's competitiveness. After its merger with Volvo, this will also largely depend on the efficiency of intercultural management and particularly on overcoming potential barriers in this respect.

6. Proposed directions of changes in managing the Geely international corporation after its merger with Volvo

Adjusting the management style and methods to the habits of the employees of Swedish companies is a challenge for Chinese managers. This is extremely important in the context of striving for the release of the potential represented by the staff employed in Volvo. The basis of the effectiveness of undertaken actions with this respect is above all getting familiar with cultural differences and understanding them, as well as developing such features of organisational culture that will facilitate triggering synergy effects in the operation of the established corporation. The point is to create conditions for the cooperation between the representatives of both cultures in accordance with the principles allowing respect for the specificity of each of them and the release of their best features.

When striving for the achievement of this state of affairs, changes occurred in the organisational structure of Volvo, where the position of the deputy director for operations with China was acquired by Freeman H. Shen in 2010. Owing to his education obtained in both the USA and China, as well as the professional experience gained in international corporations, such as TXU Group, Eaton Corp, BorgWarner, Fiat Group and ZhejijangGeely Holding Group, he acquired an extensive knowledge of the following areas: engineering, project and international operations management as well as business and project development. He also obtained necessary competences

⁶ www.geelyauto.com.hk/, Geely Automobile corporate presentation, December 2011.

in intercultural management. Due to that, he contributed to the rapid growth of managed companies and received many awards for his achievements.⁷

However, the cooperation of the companies originating from as diverse cultural circles as Volvo and Geely Automobile poses a considerable challenge. The arising problem is what strategy to apply in managing a multicultural team. The choice is among the adaptation strategy (open acceptance of cultural differences and avoiding them), the structural interference strategy (by modifying the team structure), the managerial interference strategy (specifying the principles of cooperation with the possibility of engaging a higher-level manager) and the dismissal strategy (if other options prove unsuccessful).

From the viewpoint of intercultural management, the adaptation strategy is the best, since it allows the team to solve problems independently, with the lowest possible participation of the management staff. Adaptation is applicable if team members are capable of admitting and naming cultural differences and assuming responsibility for learning them. Apart from that, team members learn on their own in the course of the process. Adaptation can lead to full understanding of the causes of problems and avoiding their occurrence in the future. The openness of team members' minds and their creative approach to cultural problems are crucial here. The strategy is also the most educating for them. In the case of the cooperation between companies, such as Geely Automobile and Volvo, the structural interference strategy, which assumes structural changes within the established corporation, may be also considered. However, there is no proven manner of solving a given problem in the intercultural environment. Determining the solution requires first specifying faced challenges and next, and more importantly, assessing the circumstances in which the team operates because it is not until an appropriate analysis of situational consideration is performed can the team leader determine the proper manner of reacting.⁸ In the case of the analysed merger, the adopted aim was the coexistence of two independent brands based on cooperation when striving for mutual benefits. Therefore, there is no need to apply the structural interference strategy; the managerial interference strategy performed by the aforementioned Freeman H. Shen is sufficient.

7. Conclusion

A combination of companies as part of a merger is always an extremely complex operation in the present business world. The success of an international merger depends most of all on carrying out an objective analysis of strong and weak points of the companies in question, as well as the opportunities and threats that they may face. It is also necessary to account for the uniqueness of the behaviour patterns of

⁷ www.media.volvocars.com/.

⁸ J. Brett, K. Bahfar, M.C. Kern, Zarządzanie zespołami wielokulturowymi, *Harvard Business Review Polska* 2010, February, pp. 115–125.

the entities expressing their culture. In order to achieve expected results of a business transaction, it is indispensable to become familiar with the impact exerted by the behaviour patterns characteristic for a company operating in a given culture on the success of the transaction. It is necessary to know elements common to the representatives of diverse cultures and be able to distinguish them. A detailed analysis of organisational behaviours and cultures of companies demonstrates an area of a possible agreement between parties, owing to which the improvement of mutual relations and communication is allowed. It also permits a harmonious adjustment of the remaining components influencing behaviours, i.e., remuneration systems and employee promotion systems for their performance. Doing this in a professional manner may constitute the best way to enter new markets and result in a very successful cooperation.⁹

Nevertheless, the vast majority of this type of agreements ends with a failure for multiple reasons, among which the following ones should be mentioned: a decrease in the share value as a result of a merger, lower profitability in comparison to the level achieved prior to concluding an agreement and a significantly lower synergy level than expected. One of the major causes of this state of affairs is giving too little attention to the stage of the integration of the companies subject to a merger with the focus on cultural standards, beliefs and values professed by.¹⁰ Owing to that, it is possible to mitigate cultural differences between interacting companies, and particularly the merging ones. The success depends also on the application of an appropriately selected strategy of managing multicultural teams.

Management style and instruments are determined mostly by all the economic objectives of an organisation, as well as by its strategy, which is created with consideration for all priorities of capital owners. Although what is crucial when it comes to efficiency is adequate influence of both cultures of the market on which an organisation works and the ability of shaping a culturalisation processes properly.

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¹⁰ According to Nguyen and Kleiner, 2003.

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RÓŻNICE KULTUROWE W KONTEKŚCIE ZARZĄDZANIA FIRMA WIELONARODOWĄ Z KAPITAŁEM SZWEDZKIM I CHIŃSKIM

Streszczenie: Ze względu na globalizację oraz szybkie tempo rozwoju gospodarczego wielonarodowe firmy stają się coraz bardziej popularne. Powstają one w efekcie nawiązania korzystnych porozumień biznesowych, w których coraz większą rolę odgrywają różne rodzaje fuzji. Fuzje przedsiębiorstw pochodzących z różnych kręgów kulturowych stwarzają nowe wyzwania dla menedżerów. Są one związane z zarządzaniem międzykulturowym, a zwłaszcza z komunikacją międzykulturową. W artykule przedstawiono związki między wymiarami kultury a stylem zarządzania oraz zachowaniami pracowników i komunikacją międzykulturową. Celem artykułu jest zaprezentowanie przesłanek i kierunków wpływu fuzji chińskiego przedsiębiorstwa Geely Automobile i szwedzkiej marki Volvo na zmiany w zarządzaniu korporacją międzynarodową Geely.

Słowa kluczowe: firmy wielonarodowe, fuzja, zarządzanie międzykulturowe, komunikacja międzykulturowa, Geely Automobile Volvo.