Organisational Hierarchies and Decision Making Process of Chinese Multinational Enterprises in Vietnam

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Abstract: This paper examines the organisational hierarchies and decision making processes of two Chinese multinational enterprises operating in Vietnam—China Luoyang Floating Glass Corp. (CLFG) and China TCL Holdings Co. Ltd. (TCL). For this study, research data were obtained from in-depth interviews of more than 20 government officials in P. R. China and Vietnam, and managers and staff of those two enterprises. Results indicate that the organisational structures of the two enterprises are still vertical but complex, although moderate changes made to them post the nationwide economic reform of China. Consequently, decision making process follows a “top-down” model, sometimes, with insufficient grassroots information. Findings are discussed in the light of political, social and cultural milieu, and implications are drawn for the management of Chinese multinational enterprises operating in overseas markets. Both CLFG and China TCL are structured on task specialisations. However, departmentalisation in TCL’s overseas division in head office is not only based on products, but also on geographical regions of markets. The organisational structure of TCL in Vietnam is less complex than the international division, but it is more centralised. Decision making at TCL combines more traditional Chinese business philosophy with modern western organisational characteristics. TCL has a strong western influence in its management style. However, some traditional characteristics such as “hero” leadership influence and political influence are involved with decision making at TCL. Amongst others, the transitional economy, social culture, poor management system and political sensitivity have been major elements influencing decision making. In the case of CLFG, some decisions have been made before proper information has been gathered and analysed.

Keywords: emerging markets; Chinese multinational enterprises; China; Vietnam; organisational structure; decision making

1 Introduction

According to the United Nations Conference on Trade and Development’s (UNCTAD) report, as an emerging market, China has made the list of the expected top five countries worldwide for the first time in terms of geographical coverage (2004–2005), replacing Japan. At a global level, China’s offshore investment is still small, but significant growth potential clearly exists. With CHINALCO intending to merge with Rio Tinto, Haier buying Maytag, TCL buying Thompson, Lenovo buying IBM’s laptop business, and CNOOP’s attempted merger with Unocol, Chinese Multinational Enterprises (MNEs) have also become a growing provider of significant foreign direct investment (FDI) to the rest of the world.

China’s economic reform that started from 1979 has had great impact on the operational environment and management system of Chinese state-owned enterprises (SOEs). With the opening-up policy in place in the late 1970s, many large SOEs have been trying to expand their business in the overseas markets. By the end of 2007, more than 7 000 domestic Chinese investment entities have established nearly 10 000 overseas directly invested enterprises across 173 countries worldwide with total accumulated value reached to US$117.91×10⁹ (MOFCOM, NBSC, SAFEC, 2008). In the case of Vietnam, since the normalisation of relations between China and Vietnam in the early 1990s, bilateral economic, trade and political ties have developed rapidly. By exploring investment opportunities in a neighbouring market, these two transitional economies became important trading partners. The two governments have also signed numerous agreements for investment protection since the normalisation of relations. According to statistical data from the Chinese Ministry of Commerce (MOC), by the end of 2007, excluding the financial
sector, China had invested in 94 projects in Vietnam, with accumulated volume totalling US$396.99×10^6 (MOFCOM, NBSC, SAFEC, 2008).

Academics such as Liu (2004), Luo (2002), Wang (2002), Taylor (2002), Fu (2000), Cai (1999) and Buckley (1998) have touched on the issue of Chinese MNEs, but only generally addressed the motivations of, and basic mechanism for Chinese MNEs to invest in other countries, particularly in advanced economies, such as Australia, Canada, USA and Hong Kong SAR. Insufficient research has been directed to Chinese investment in developing countries such as Vietnam. This paper attempts to fill the gap in this line of research by examining two Chinese MNEs in Vietnam with particular respect to organisational hierarchies and their influence on decision making processes. Findings from this study are expected to enhance our understanding of Chinese MNEs operating in the overseas markets and suggest policy implications.

2 Method

A qualitative research method was considered more appropriate for this study as it allowed the participants to offer their responses to politically sensitive and controversial issues using their own words and terminology. It also provided a more in-depth understanding of the processes of decision making. Questions such as "How did the organisational structure form"; "Who is making decisions within the organisation"; and "How have these decisions been made" were asked in the interviews. The three research approaches employed for this study—case study, secondary data review and official statistical analysis, and semi-structured interview technique of collecting information will be explained. Among the numerous Chinese MNEs operating in Vietnamese markets, China Luoyang Floating Glass Corp. (CLFG) and China TCL Holdings Co. Ltd. (TCL) were selected as cases for this study. Both companies are large state-owned manufacturing enterprises in China. CLFG, established in 1956, is the largest comprehensive glass manufacturer in China and the birthplace of "Luoyang Float Process"—one of three float processes in the world. TCL is a comprehensive large-scale state-owned enterprise. The semi-structured in-depth interview is particularly suitable for the managers from China and Vietnam in terms of cultural backgrounds. From a cultural perspective, managers from China and Vietnam try to avoid the written communication, particularly which is regarded as politically sensitive, critical and controversial issues. Face to face communication could breakdown those concerns and barriers. It allows the participants to offer their responses to politically sensitive and controversial issues using their own words and terminology. Sometimes, a simple nod or facial expression can illustrate his/her attitude towards a particular issue. A large set of secondary data was reviewed. Even though a few indirect studies have been conducted on Chinese FDI in Vietnam, some relevant existing statistics, relevant documents and regulations are available for study. The World Economy and Politics Institute of the Chinese Academy of Social Science in Beijing, Chinese Academy of International Trade and Economic Cooperation in Beijing and Vietnam Academy of Social Science, Hochiminh City branch all proved useful sources to seek clarity and information. The researchers in these institutes provided additional documentation and regulations relevant to this study, such as: China Statistical Yearbook (1993–2003) (National Bureau of Statistics of China, 1993–2003), Statistical Bulletin of China's Outward Foreign Direct Investment (MOFCOM, NBSC, SAFEC, 2004–2007; 2008), World Investment Report (1993–2008) (United Nation Conference on Trade and Development, 1993–2008), Almanac of China's Foreign Economic Relations and Trade (The Editorial Board of the Almanac of China's Foreign Economic Relations and Trade, 1993–2003), annual reports of TCL and CLFG companies, and some government documents involving China's policies for foreign trades, instruction of outward FDI, Vietnam inward FDI law etc.

There are number of data sources that were in Chinese and Vietnamese, the author translated most of documents into English.

The data collected for the two cases involved three months in China and three months in Vietnam. During the fieldtrip, approximately 15 managers from head office and subsidiaries, as well as government officials who had been involved with Chinese outward FDI in Vietnam were interviewed. Each interview usually took three to four hours of formal interviewing time and many hours at the banquet table. Four key interviewees were interviewed twice, allowing deeper conversations to take place. Interviews were also conducted with aca-