

# 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 CNOOC'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 direct invested enterprises across 173 countries worldwide with total accumulated value reached to US\$117.91×10<sup>9</sup> (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 statis-

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tical 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<sup>6</sup> (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 break down 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 academics from the Chinese Academy of Social Science in Beijing and the Vietnam Academy of Social Science in Hochiminh City and government officials from the Ministry of Foreign Trade and Economic Cooperation (currently Ministry of Commerce) in China and the Chinese consulate business section in Vietnam. Chinese and Vietnamese academics, and officials were introduced through existing networks.

During the data collection period, the grounded theory technique was applied. Content analysis was linked with the grounded theory approach to interpret the data collected during and after each field trip. If the grounded theory technique raised an issue, content analysis was applied to further examine the nature of the issue in question. Furthermore, an analytic comparison technique was also used to find out similarities (Method of Agreement) and differences (Method of Difference) between the two enterprises. From the analysis, collective and individual motives and mechanisms of the two Chinese MNEs international value added activities in Vietnam were identified and analysed.

### 3 Results and Discussion

#### 3.1 Organisation structures of China TCL and CLFG

The structural organisation of Chinese MNEs is one of the important keys to understand the operation mechanisms guiding Chinese MNEs investment in Vietnam. The organisational structure reflects the ownership, corporate strategy, and the coordination and control of the enterprises. Like most Chinese MNEs, both the overseas business division of TCL and overseas division of CLFG are vertically structured with different departments operating at different levels of the organisational hierarchy.

Within the corporation structure, as many interviewees pointed out, TCL's Overseas Business Division is one of the most important divisions. This is another indication of TCL's international expansion strategy. The vice presidents in each division take specific responsibility. The CEO of the division oversees the overall agenda and some key tasks. The departmentalisation of divisions is not only based on the products, but also on geographical regions such as the European Union, North America, and Southeast Asia.

Such organisational structure indicates that each of

the functions of China TCL was standardised. The functions were clearly divided between divisions. The organisational structure of TCL Vietnam was also centralised to facilitate commands to pass from top to bottom and the results were easily monitored by top management (Fig. 1). One of the reasons for this was that TCL Vietnam is still "young" and the managers and division chiefs need to gain more trust in order to get more power.

CLFG's structure was slightly different from TCL's. There were three ownership groups of constituent companies in CLFG's current structure. The first group of constituent companies consisted of those that were wholly owned by CLFG. The wholly owned subsidiaries were mainly servicing companies for CLFG. They provided professional services such as financial services or hospitality services to CLFG and its subsidiaries. The second group of constituent companies were those majority owned by CLFG. CLFG Vietnam and the core business of CLFG, publicly listed Luoyang Glass Company Limited, were in this group. The majority of those partially owned subsidiaries were mainly manufacturing businesses. They were involved in different aspects of the industry. The last group of constituent companies were partially owned by CLFG, but the share it owned was not large enough to control the constituent companies. The subsidiaries in this group were mainly distribution companies or in related industries. The current organisational structure of CLFG was highly complex (Fig. 2).

Sino-Vietnam Longjiang Glass Mirror Company Limited is CLFG's subsidiary in Vietnam. As a joint venture in Vietnam, Sino-Vietnam Longjiang Glass Mirror Company Limited is majority owned by CLFG. CLFG head office directly managed the Vietnamese subsidiary, and a centralised structure existed between head office and the subsidiary. However, the ownership of the subsidiary was undergoing change during the time of this study. Due to a non-profitable result in the Vietnamese market, CLFG was negotiating with a Vietnamese partner to try to sell its ownership to the Vietnamese counterpart. The Vietnam subsidiary had a centralised, less complex organisational structure, with Vietnamese and Chinese managers sharing positions. The director of the board was the decision maker. The General Manager was from China, as were the manufacturing, technology and finance managers. The marketing and sales manager and other managers were from Vietnam. The manufac-

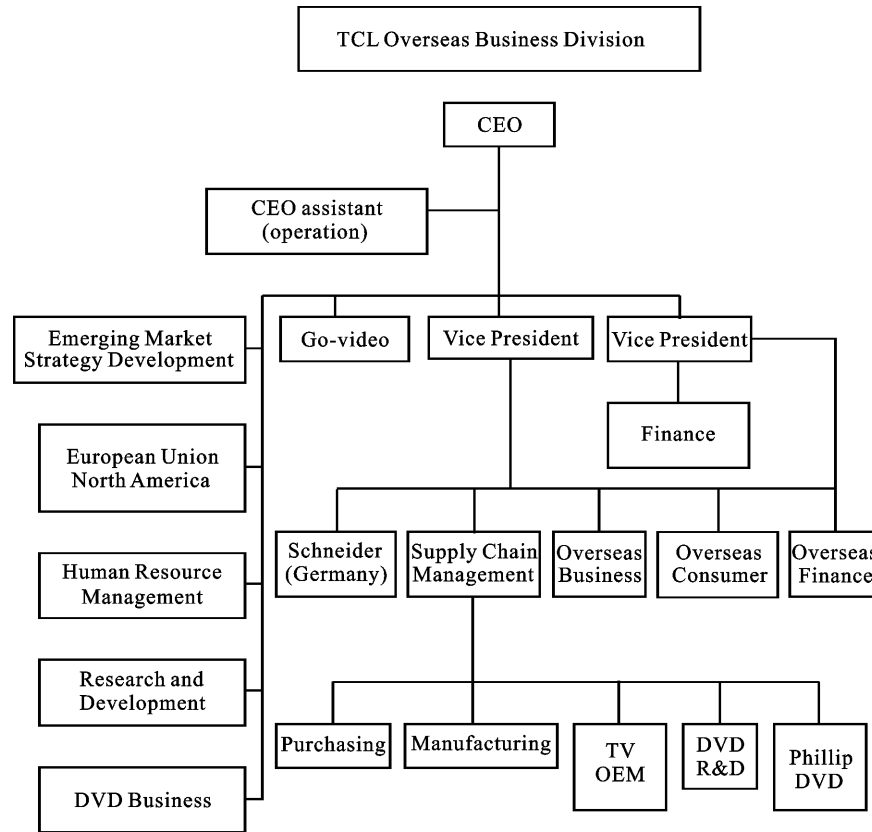


Fig. 1 TCL Overseas Business Division structure<sup>①</sup>

turing sector was departmentalised by products while the marketing and sales sector was departmentalised by geographical location (south, north and central).

The change of the ownership of China TCL and CLFG during the economic transition had a strong impact on the organisational structures. With rapid expansion of operation reflected by an increase in assets from 5 000 yuan (RMB) at the beginning to today's multibillion-dollar revenue, TCL has had to change its organisational structure frequently during the last three decades. The current organisational structure of TCL is complex. Wen and Qiu (2003) described TCL's organisational structure change as turning from a "flexible goat to a slow giant elephant". In contrast, CLFG has gradually transferred from a centrally planned SOE to a mixed-ownership business group. The current organisational structure of CLFG is based on its core business—CLFG which has been listed on the Hong Kong and Shanghai stock exchanges. It was also complex and some functions overlap.

### 3.2 Decision making in TCL and CLFG

The decision making processes within China TCL and

CLFG are quite similar to those of the West, including defining the problem, collecting and analysing information, choosing alternatives, implementing actions and monitoring decisions. The relationship between the head office and subsidiary in CLFG is seen as a "mother-daughter" relationship. The export department at CLFG is in charge of its Vietnamese subsidiary. This department is directly controlled by the President. The export department has limited functions, however, important initiatives and decisions are usually made at a higher level of management. The department is mainly involved in daily administrative work. Because CLFG in Vietnam is a joint venture, final decisions have to be agreed on by both parties. This involves extensive negotiations.

In general, decision making in CLFG could be categorised as both "top down" and "bottom up". The "top down" refers to top authority pushing down decisions. As CLFG is in transition, and due to its ownership history, there are still planned economy ways of thinking in existence in CLFG. These decisions are mainly generated by the government policy. Because most of these decisions are made without research, sometimes it is difficult

① Source: China TCL Holdings Co. Ltd profile booklet (China)

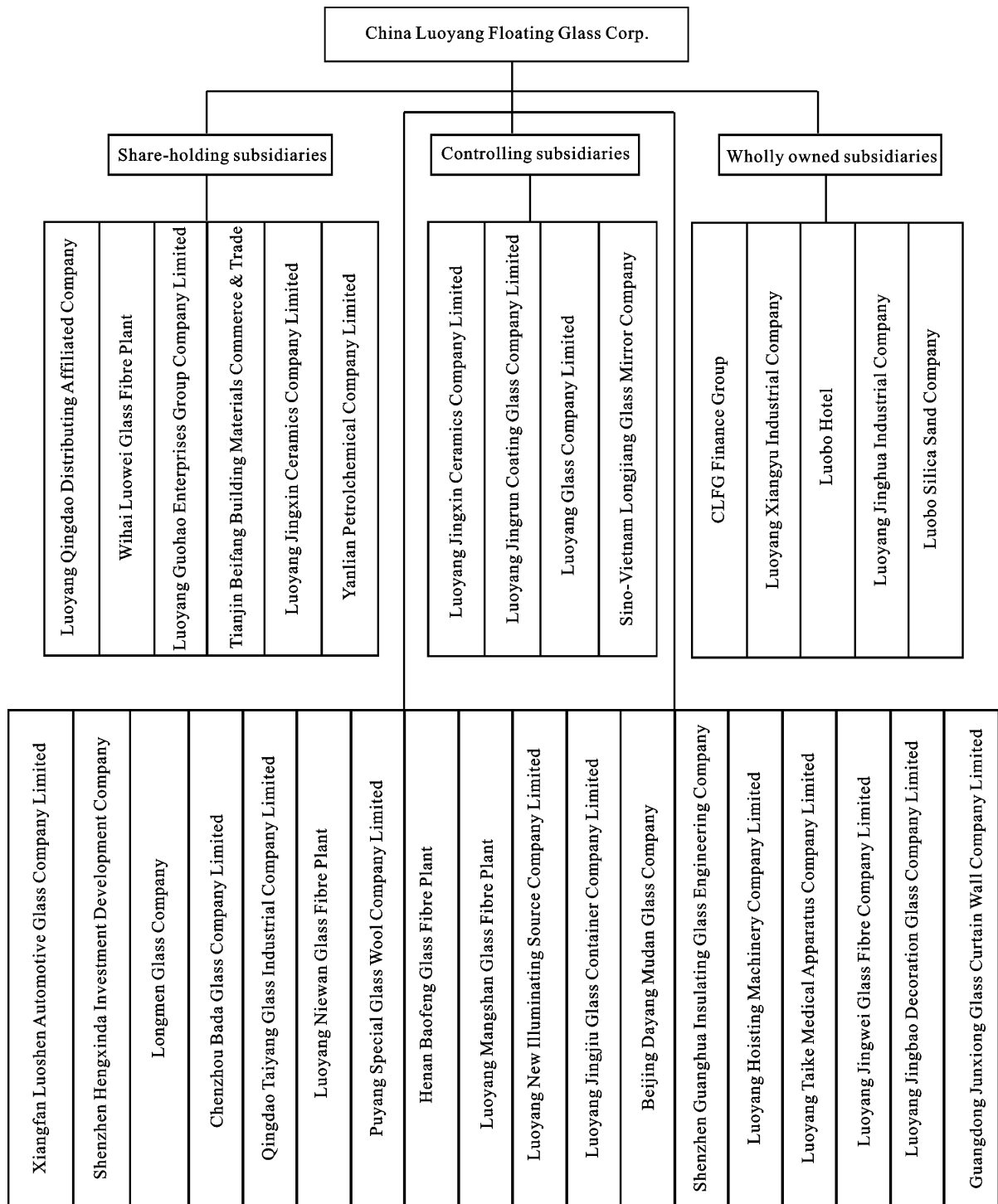


Fig. 2 CLFG organisational structure<sup>①</sup>

for lower levels to accept them. The "bottom up" decision emerges mainly from the lower level of CLFG. Many decisions have to be made at the bottom levels due to rapid changes in market demand and many issues affect-

ing the bottom levels of the organisation must be finalised quickly. After such decisions are made, the top management normally tends to issue new policies to address the issues raised by the local office.

① Source: China Luoyang Floating Glass Corp. profile booklet

This decision making process at CLFG is similar to those observed in many western organisations, however, there are discrete differences in each step at CLFG. At the problem definition stage, CLFG usually has the "bottom up" style of decision making. On most occasions senior management is forced to deal with problems that have eventuated. This happens to senior management both in Vietnam and at the Head Office in China. CLFG managers were granted more rights to make decision on the direction of the enterprise. However, there are still other affairs, such as political issues, personnel issues (even occasionally sorting out conflicts between husbands and wives within enterprises) and daily routine issues that require the involvement of senior managers.

Lack of skills and knowledge within the management of modern organisations is another explanation for the "bottom up" style. Collection and analysis of information is crucial for CLFG operations. CLFG managers view the relevant market information and new national policies as extremely critical information for the enterprise. This was mentioned by a number of senior managers of CLFG during the interviews. For example, the "go outside" policy was one of the main motivations for the decision to invest in Vietnam. Lack of reliable information, particularly market information, deficient knowledge and skill are common problems that CLFG is facing. Information presented here was collected from the delegates' personal experience and business sense—a survey questionnaire was not conducted.

Another characteristic of decision making at CLFG is that sometimes decision-makers do not completely rely on, or entirely trust, the collected information. For example, Chinese managers mentioned that they do not trust the interviews conducted by their marketing managers because both Chinese and Vietnamese managers tend to provide only positive stories. They do not believe that information collected by marketing managers is reliable for decision making due to traditional philosophies of saving face and modesty.

Monitoring and controlling the result is the step which has too often been ignored by some managers. Because managers do not realise the importance of monitoring results, there are no effective and efficient systems in place at CLFG to support this step in the decision making process. Too often decision-makers at CLFG have already formed their decisions before

proper information is gathered and analysed. Firstly, decision-makers do not understand the whole decision making process. Secondly, decision-makers have their own interests rather than the organisational interests in mind.

All decisions made by CLFG are centralised. CLFG Vietnam is required to contact the head office on a daily basis. CLFG management assumes that the head office tightly control the Vietnamese subsidiaries. However, due to a lack of management systems in fields such as financial control and supply chain analysis, head office does not fully understand what is going on in its Vietnamese subsidiaries. The Chinese managers in Vietnam often have their own interests at heart. They have been known to use business capital to conduct their own business, thereby delaying payment to head office. Vietnamese managers have also tried to set up their own businesses using the knowledge they have gained at CLFG Vietnam in direct competition with CLFG Vietnam. The decisions in CLFG are frequently complex and contradictory to the central command.

Founded in the early 1980s, TCL has been less influenced by the central-planning system. The decision making process of TCL has unique characteristics combining modern and traditional Chinese private organisational characteristics. The senior managers of TCL have complete decision making authority. Those authorities are protected by the Law of Enterprise, which was enacted in 1984.

Like CLFG, TCL head office and its Vietnamese subsidiary can also be described as a "mother-daughter" relationship. The international business division at TCL is in charge of their Vietnamese subsidiaries. This division is under the direct control of the President. The international business division has limited functions, as the important initiatives and decisions are usually made at a higher level of management. This division is mainly involved in daily administrative work.

Traditional Chinese family business and modern organisational style characteristics are also reflected in its leadership. The strong leadership in TCL is definitely one of its main distinguishing characteristics. Senior managers, including the chairman, have final decision making authority in manufacturing administration, human resources management, financial management and other important fields of the enterprise. In general, the decision making in TCL could be categorised as a com-

bination of both "top down" and "bottom up". The aforementioned Chinese saying regarding such decisions, "Where there is a policy from above, there will be a counter tactic from below" does not appear to exist at TCL. Most decisions are made based on research and feasibility studies and are implemented thoroughly without resistance. There also exist channels for "bottom up" decisions. The lower level employees are able to express their opinions, which are communicated to the final decision makers. But there is no guarantee that decision makers will accept all recommendations as the leadership of TCL is relatively strong. If we regard TCL as a Chinese family, the chairman would be the father figure. TCL's successful expansion has been due to the strength of its leader. Every success story of TCL is attributed to the chairman's leadership, and with little criticism, which means that final and absolute decision making power rests with him. Nolan (1996) pointed out that because most Chinese do not believe in a god like most westerners do, Chinese usually seek heroes among their leaders.

The problem defining step in TCL is usually in the "top down" style. However, before the decision has been made, the senior management will consult with relevant groups and do extensive research to assist the decision.

The step of information collection and analysis is crucial for TCL. For example, the "go outside" policy as one of the primary considerations behind the decision to invest in Vietnam was commonly quoted. TCL has its own information collecting system. The system is similar to those of most modern international organisations. Different teams are in charge of different products and functions. The information is then collected for the managing board. The board will then engage in extensive discussion, drawing on all the information gathered. Different members also draw on their own experience in such discussion. The analysing process is mainly concerned with debating the possibilities and different alternative scenarios.

Decision makers at TCL usually collect the feedbacks from different aspects until the objectives have been achieved. For example, after TCL Vietnam made a profit in Vietnam a year after initial investment, TCL conducted another round of research in Vietnam. As said by a senior manager, this research is vital because it is not only for evaluation of the results of this particular investment but also in preparing for moves into other

markets such as Russia, India and France. This method is a more "bottom up" style. Basically TCL's "top down" relies on "bottom up". The effective and efficient monitoring systems in place at TCL have derived from successful experiences in the home country.

Most of the decisions made at TCL are centralised and strategic decisions. The strong leadership and relatively well-established monitoring systems have guided these decisions. The General Manager of TCL Vietnam said that they could only make decisions on administrative issues. All other issues have to be reported to head office and decided at a higher level of management. The centralised systems at TCL also result in more complex and less flexible decisions. The system is very formal in nature.

#### 4 Conclusions

This paper has shown the organisational structures and decision making processes of two multinational companies—China TCL and CLFG. Both of them 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. After restructuring the ownership of CLFG, the functions of each enterprise in the group became clear and power and authorities were also decentralised. The CLFG head office directly manages the Vietnam subsidiary. CLFG in Vietnam is less formalised than head office, as some functions of Chinese and Vietnamese General Managers overlap.

Decision making steps at TCL and CLFG are similar to western organisations in that they define problems, collect and analyse information, formulate alternative scenarios, choose scenarios and implement actions, and monitor results. Decision making at TCL combines more traditional Chinese business philosophy with modern organisational characteristics. Located in Guangdong Province, the pioneering region for economic reform in China, TCL has a strong western influence in its management style. However, there are some traditional characteristics such as "hero" leadership influence and political influence that 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. China claims that its economy is a socialist-market economy with Chinese characteristics. The personality of the leader has been a strong influence on decision making at TCL, while in the case of CLFG, some decisions have been made before proper information has been gathered and analysed.

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