

## Management Problems at Manufacturing Enterprises with 100% Russian Capital in the Peoples Republic of China: Challenges and mistakes in organization design and organizational culture

Pedyash, Denis / PhD (candidate)

1. Institute of Management, Harbin Institute of  
Technology, HIT  
Harbin, P.R.of China

2. Far-Eastern Federal University, FEFU  
Vladivostok, Russian Federation  
E-mail: dennauka@gmail.com

Shi, Chun-sheng / PhD, professor,  
Institute of Management, Harbin Institute of  
Technology, HIT  
Harbin, P.R. of China  
E-mail: hitscs@hit.edu.cn

Shulgina, Olesya / student,  
Amur State University, AmSU  
Blagoveschensk, Russian Federation  
E-mail: shoa90@mail.ru

**Abstract** – In this paper we analyzed the relevant literature and searched the design and cross-cultural problems of Organization structure at Russian (100% Russian capital) manufacturing enterprises in People Republic of China.

In total, 34 managers from 16 Russian enterprises based in China were interviewed. In the finding and analysis we concentrated on certain problems emerging at the enterprises where the Russian and Chinese managers have been present and involved actively in the decision-making process. Finally, we identified the position of Russian and Chinese managers in Organization structure of these enterprises and found out some management problems.

The purpose of this paper is to suggest a preliminary analysis from the perspective of both Russian and Chinese specialists.

**Keywords:** *Manufacturing enterprises with 100% Russian capital, Russian Enterprises based in China (REBC), Russian industrial enterprises in China, Russian management in China, Organization Structure and Organigramme (Organization Chart) in REBC*

### I. INTRODUCTION

Recent successful factors benefiting a favorable investment climate in the People's Republic of China, the Russian investors keep on exporting capitals and hi-technologies to this country and creating a number of companies and businesses, including enterprises, specialized in manufacturing.

The objects of study in this research are Russian Enterprises based in China specialized in manufacturing.

In reviewing literature, we primarily considered the works by European and American scholars in the field of cross-cultural management in general, and, more specifically, the management at Chinese hi-tech enterprises with foreign capital or foreign technology.

In practice, one of the most crucial problems of joint collaboration with no success has been rooted in unsuccessful joint management. According to some sources [1], about 55% of newly established Russian Enterprises Based in China (REBC) has closed down within from one year to three years [2], [3]. It is commonly perceived that certain economic troubles have been the primary reasons for the closure; however, our research has shown that the management-related issues superseded all other negative factors. For example, in the newly-found hi-tech area of Skolkovo, more than half of such enterprises reportedly have problems with finding appropriate organization structure as well as with talents [4]. Thus, we have aimed in finding out and analyzing the mistakes from the sides of both Russian and Chinese managers when they pursue joint managing of their ventures, enterprises and projects.

First of all, we have paid attention to organizational structure, because "organization design continues to be one of an important and challenging demand on top management, because it influences and interconnects the business and corporate strategy, marketing, decision-making, communication, finance and investing, and leadership within any organization" [5]. While choosing and creating the proper organizational design by the Russian and Chinese managers at the REBC, the structure of management has been significantly altered. A lot of problems emerge during joining of control.

### II. LITERATURE REVIEW

The Anglo-American model has certainly been the "classics" and is the leading one worldwide [5]. However, a few Western most prominent scholars in management do admit that the Americanized approaches are not always likely to successfully contribute in problem-solving for other country cases. For instance, matrix organization is a right solution when people at work should be organized in accordance with functional and disciplinary criteria, as well as when it is necessary to react quickly upon problems

emerging during a project. However, the matrix structure, which tends to successfully contribute to problem-solving in the USA, Canada and UK does not work well enough for similar problems at the enterprises of family type, such as in China or in Japan [6].

We based our research on the classics of what is called Change Management.

From Trompenaars' works, it is clear that China and Russia belong to the same organizational structural type [6], [7]. Organizational structure of both Chinese and Russian enterprises belongs to the "Family" type [8], [9]. In China has been shaped the family enterprises with strong centralization and weak delegation of power [10]. It has been found that in China, as well as in Russia, most of the enterprises have Vertical Functional Structure and Vertical Structures as Divisional Structure [11].

Also, for better understanding the challenges of Russian management in the Chinese environment, it was deemed necessary to review literature reflecting the characteristics of the management in China [12].

Redding highlights that among the family type of enterprises, the share of horizontally structured ones is visibly large quoted in [13].

Additionally, most of the authors agree that the enterprises in the Peoples' Republic of China significantly bear the influence of state [14]. That has been a direct consequence from the influence of USSR in 1950s [10].

It is commonly known that decentralization and delegation of any rights to foreigners is undergoing, if ever, with significant difficulties [6].

Recently, the Russian managers working in China are being offered information of better quality on legal and economic aspects of their activities (for example, Consulting Group ChinaWindow). The industrial and business leaders are offered more in-depth training and education [15].

Thus, our general conclusion upon analyzing the literature is that during jointly managing an enterprise with joint capital, the joint methods of management should be adopted accordingly.

### III. METHODOLOGY

In research we primarily used qualitative methodology. We elaborated sets of different semi-structured and non-structured interviews for a best matching combination of different data sources in a unified analysis [16].

In total, 34 managers from 16 REBC were interviewed. Enterprises were manufacturing enterprises with 100% Russian capital (The Wholly Foreign Owned Enterprise - WFOE). We visited 12 REBC and interviewed the managers "face to face". Managers at other 4 REBC were interviewed via Skype.

The primary method of our research was interviewing of the Russian and Chinese managers. The interviews were non-structured. In total, 21 Russian and 13 Chinese managers were interviewed. Their age ranged from 30 to 55 years old, and the working experience was no less than 5 years.

The set of the interview questions, or the list of the issues to cover, was based on known problematic issues within organizational structures.

### IV. FINDING AND ANALYSES

Fig.1 represents typical organizational structure of enterprises in China with 100% Russian capital. Russian staff is marked with underlined titles; the Chinese employees are others, while the semi-underlined text marks the jointly staffed structural units.

As we can see from the chart, the enterprises belong to Vertical Functional Structure type, with clear delegation of authorities and prescribed duties for all employees.

General Director (should be understood as General Manager; a literally translated Russian term is used here) is appointed either by general shareholders' meeting or by a single owner of the company depending on form of ownership. He or she controls and manages all the structural units of the enterprise and signs financial paperwork together with Chief Accountant.

The Chief Accountant, as it would be common in Russia, is a person in a special position, and of special power, also a Russian. He or she manages all the financial activities of the enterprise, and it includes the work of a subordinate accountant, who is a Chinese. The Chinese accountant solves all the issues related to taxation, governmental institutions and is responsible for activities such as leasing/rental, etc. Typically, there is also an audit company, also a Chinese, which solves not only financial issues, but also the legal ones. Here arises a systematic problem: the Chief Accountant is seldom a person with a form of education or experience related, in any way, to China, including knowledge of Chinese language. Thus, he or she can only communicate with subordinate accountant(s) or auditors without an interpreter. In addition, joining Russian and Chinese accounting patterns and methods is also a heavy headache. Fully Chinese accounting system is not acceptable for the Russian top managers, since they got used to the Russian style of these matters: they never want to switch to the Chinese mode of accounting in a considerable way.

Administrative Manager is responsible for coordinating the areas of human resources, auxiliary services, public relations; he or she is a Russian.

It was quite interesting to take a look on position and Job Description of translator or interpreter at these enterprises. For instance, in one of them the respondent was a young female who graduated from a Chinese higher educational institution in economics. Interestingly, the managers of the enterprise only utilized her Chinese language skills, while her in-depth knowledge was, by chance, found very useful at different occasions. This situation is quite typical for the most of similar enterprises. Often, the duties of interpreter and/or translator are combined with jobs of office manager, clerk, secretary or sales manager. From another point of view, the interpreters often take initiative and tend to adopt decisions of Russian managers for Chinese staff, including clarifying technological issues for shop workers. These activities are often not welcomed by the management, who believe that the interpreter was there just to convey what has been said. Neither the workers themselves may fully welcome these initiatives because they are clearly aware that

the interpreter is formally not in power to do these things. This situation does not depend on the interpreter's nationality – it has been equally relevant for both Russians and Chinese. It is interesting to add here that if the interpreter is a Chinese, his “additional” knowledge is often used for making good contacts with Chinese local authorities. However, only one interviewee pointed out a success of these activities. It is more common that the Chinese interpreter would cheat to his Russian managers and pursue his or her own interest.

Since the goods are Russian market-oriented, a person responsible for advertisement or public relations is also a Russian.

A quite important position is the Manager of Manufacturing Technology and Quality Control (or with the title like that). Such person's duties include supervision of technological process in its different aspects, with quality being the foremost. Besides such technological processes, this Manager may also be assigned economic calculations and supply.

It is important to highlight that no delegation of authority to Chinese staff occurs for this position. This happens because, according to the practice, in cases the above duties being delegated to a Chinese manager, the quality drops down against Russian (often government-approved) standards of quality. Even if we imagine that the Chinese managers take key posts as senior and top administrators (this is never observed at the enterprises we studied, though the possibilities were mentioned), under no circumstances the position of the manager responsible for quality control would be delegated to a Chinese. There are a few reasons or problems behind this, in particular:

(1) Protecting Russian know-how (all the Russian managers have said that the Chinese colleagues have developed a passion towards stealing the technologies).

(2) The Chinese would manufacture as they used to do, regardless of requirements imposed on behalf of the Russian side. It is interesting to mention in the context that the Russian managers might consider acceptable certain losses in profits for the sake of keeping the enterprises and products image. This sounds odd to the Chinese.

(3) Many Russian managers point out a certain degree of dishonesty of the Chinese employees. The system of kickbacks is not spread widely at the Russian enterprises, and often the cases are subject to criminal prosecution. In contrast a Chinese manager for supplies will readily set and announce higher purchase prices – he or she will be getting ready to receive benefits from his enterprise, as well as from suppliers. Such shortcomings, however, have been widely utilized by the Russian managers when they sell their products.

Consequently, and we can see this on the chart, the area of sales would be typically delegated to the Chinese, but under strict control of the Russian supervisors. The control though is imposed not because the Chinese are presumably suspected in various kinds of tricks, but mainly in favor of the enterprises long-term image, steady and systematic after-sale services and so on. The Chinese often do not understand this logic. They believe that once a profit has been achieved, anything else is not so important.

Such phenomena as favoritism, high degree of importance of informal governance and other things, which are typically attributed to the “universalistic” (according to Trompenaars, for example), Universalism is about finding broad and general rules. When no rules fit, it finds the best rule [6], managerial approach, have been observed at the Russian enterprises and mentioned by the interviewees. This also makes the Russian enterprises looking like their Chinese counterparts.

It is also necessary to point out that all the senior managers came to China after years of experience in the home country, and, especially in the beginning of their work in China, tended to transfer the organizational structure and managerial methods to the new establishments in China. In the course of time, they got to know certain things, and thus it takes them in average about three years to create, through trials and mistakes, optimal structures, job descriptions, etc. and to find right approaches. All the interviewees agreed that in case they were able to find an appropriate organizational solution quickly upon establishing the enterprise, they would avoid numerous unnecessary expenses and losses, problems with brain drain and so on. For instance, a few interviewees recall attempt to impose Western-style motivation mechanisms, such as via bonuses and fines. However, when it did not work out as expected, the managers went back to Soviet style of encouragements, which turned out to provide much better results. Among those methods there have been posters, slogans, honor boards, output competition between shops, as well as daily meetings where current issues are discussed – such as wrong actions being investigated and words of thanks to those who performed well are announced. Both Chinese and Russian employees find the latter methods of motivation more appropriate.

Most managers prefer to employ workers and staff members without experience (in China) and provide appropriate training to them. According to numerous interview opinions, a worker who got used to work as the Chinese typically do would never be able to change his way of performance in a way appropriate towards Russian requirements.

Thus, as we see, the major problem, which management of 100% Russian enterprises in China faces is to deliver to Chinese colleagues and workers the right manufacturing technology and service patterns. Since the Russian managers allocate the duties, create job descriptions and regulate remuneration themselves, this is not a very hard mission to complete. But according to the responses turned by the Chinese, it is difficult for them to understand tough, sometimes very harsh decisions of the Russian managers. All the managers interviewed complained about excessive employees turnover, as the Chinese hardly accept foreign things and foreign ways, but the managers are not willing to explain the unclear issues to them in details. However, according to the Chinese interviewees, the Russian managers do care more about the workers comparing with the Chinese peers, pay more attention to their quality of daily life, education and training, which contribute to higher performance of the workers.

## V. DISCUSSION AND CONCLUSION

In spite of the fact that according to the theoretical analysis of organizational structures, Russian enterprises based in China should have much in common, in practice we do observe numerous problems.

For instance, at the enterprises with 100% Russian capital, according to both top and middle-level management, as well as the Chinese, the organizational structure should be regarded as functioning in a more successful way than at the joint ventures; and this happens in spite of a number of problems still in relevance. The major problem is to build up a mutually acceptable organizational structure in a way so that the core of technology of manufacturing should be properly conveyed to all the Chinese workers. The degree of success of solving this issue is directly associated with the enterprise performance and output. It is necessary to point out that the Chinese employees do not properly understand that such aspects as prestige and quality are much more important than quick profits and return. Therefore, an important role in the organizational structure belongs to employees possessing cross-cultural skills, who are not just interpreters or translators, but those who are capable to give a timely advice to leaders and managers on how certain things should be handled with the Chinese personnel and in China in general.

The delegation of authority to the Chinese sub-managers is weak at the 100% Russian enterprises. In comparison, at the joint ventures led by the Chinese, it is weak from the top to the Russian managers and specialists. Basically speaking, at the 100% Russian enterprises the Russians must be more attentive to the needs of the Chinese employees. The organizational structure should differentiate depending on an enterprise's life cycle and growth.

Overall, in our research we confirmed the conclusions made in the literature. While committing to work in the People's Republic of China, it is very important to consider the factors of organizational change, due to existing adaptation to the Chinese leadership style. It is strongly desirable to have a team of people with in-depth knowledge of Chinese language and culture as a safety layer against these bumping challenges.

While working on this paper, we came across the problem of non-existence of any published literature on similar issues.

## VI. FOLLOW-UP-RESEARCH

In the future we are planning to continue interviewing more managers at a larger number of the enterprises in order to develop and deepen our own research on the Russian enterprises in China, the uncovered and possible new problems, and to find out whether the scholars' recommendations strike adequate roots in the actual manufacturing business, and whether their organizational structure goes through adaptive changes.

More than that, we are planning to compare Canadian Enterprises based in China (as a represent of Classic Anglo-American Management) and REBC. Additionally, the data

related to the third countries' experience will broaden the spectrum of the future investigation.

We found out that the Russian top managers, especially younger ones, do not know about existence of the Chinese Communist Party (CCP) committees at the working units everywhere at the enterprises. As a rule, the Chinese are trying not to expose the Party matters to foreigners, and we believe this is a wrong strategy. Considering that the Secretaries of these committees are very skilled managers in human resources development and possess real authority as leaders, we would like to recommend the Russian partners to be in closer touch with the Party cells in the industry believing that, as the result, many issues could be resolved positively and faster.

In the future, as an outcome, we are planning to create a Model for Russian management of an enterprise in China.

The cultural and psychological aspects of the Chinese and the Russian managers should also be considered: in a better way, a joint research work by specialists in management, cultural studies, economists and psychologists may assist in creation of a Model close to an ideal type.

## ACKNOWLEDGMENTS

The authors offer their special thanks are given to Dr. Andrey Uroda for his advice in a number of areas.

We are also very thankful to Mr. Valery Pedyash, Mr. Timur Aliev, Dr. Wang Qing-sheng and Mr. Sergey Shilin for co-sponsoring our research. We would like to show our gratitude to Dean of AmSU Dr. Svetlana Kosihina for the provided opportunity to make a research in China.

We express our gratitude to Mr. Xi, An, the Chief executive Foreign Trade Association of Heilongjian Province, for information about REBC.

Finally, we would like to thank Dr. Lv, Xiaowei, Dr. Gu, Jiangzheng, Dr. Liu, Wei and Mrs. Meng, Xiaoli of Harbin Institute of Technology.

## REFERENCES

- [1] Russian Trade Representative Office in PRC (<http://russchinatrade.ru/ru/ru-cn-cooperation/investment>)
- [2] Russian Embassy in China (2009). Retrieved on 24 December from <http://www.international.gc.ca/controls-controles/index.aspx>
- [3] Ministry of Commerce of China (2010). China's Absorption of FDI in January-October 2009. Retrieved on 06 January from <http://english.mofcom.gov.cn/aarticle/statistic/foreigninvestment/201001/20100106726891.html>
- [4] Skolkovo Research, Russian and Chinese multinational companies: operational difficulties and crisis challenges. Moscow School of Management SKOLKOVO, 2009
- [5] R. Salmon, Future of Management. Oxford: Blackwell, 1996.
- [6] F. Trompenaars, Riding the Waves of Culture: Understanding Diversity in Global Business. New York: Irwin, 1998.
- [7] G. Hofstede, Organization culture. In: The IBM Handbook of Organizational Behavior (pp.193-210). London, 1997.
- [8] S.P. Myasoedov, Bases of the Management: How to Do Business with Representatives of Other Countries and Cultures? (С.П. Мясоедов, Основы менеджмента: как вести бизнес с представителями разных стран и культур?). Moscow: Business. 2003.

- [9] D.V. Pedyash, "Matching Russian and Chinese Cultures Using Models of Hofstede and Trompenaars". Proc. of the 16-th International Conference of the Association of North-East Asian Cultures "Cultures exchange in East-sea and the Primorye region of Russia" (pp. 662-666), Vladivostok: Far-Eastern National Technical University, 2008.
- [10] V.V. Malyavin, China Managed: The Old Kind of Management. (В.В.Малявин, Китай управляемый: старый добрый менеджмент) Moscow: Europe, 2005.
- [11] D. Pedyash & Chun-sheng Shi, "Comparing the organization structure of management in Canadian, Russian and Chinese enterprises". Proc. of the 16th International Conference on Management Science and Engineering, ICMSE 2009. (IEEE Xplore) Moscow, Russia, 2009, p.p. 859-866.
- [12] Mingwei Zhu, Theory of Chinese Managerial Culture (朱明伟, 中国管理文化论), Shanghai: Lixin Huiji Publishers, 2000.
- [13] Shiqian Zeng, Chinese Management, Taipei: Zhongyang Tushuguan, 2001
- [14] A.Ong. Flexible Citizenship. The Cultural Logics of Transnationality. Duke University, Press, 2002 p.195
- [15] CHINA WINDOW Consulting Group Ltd ([www.chinawindow.ru](http://www.chinawindow.ru))
- [16] P. Bazele, Mixed methods in management research. Research Support P/L & Australian Catholic University Published in: Richard Thorpe & Robin Holt (Eds) The SAGE Dictionary of Qualitative London: Sage (pp.133-136), 2008

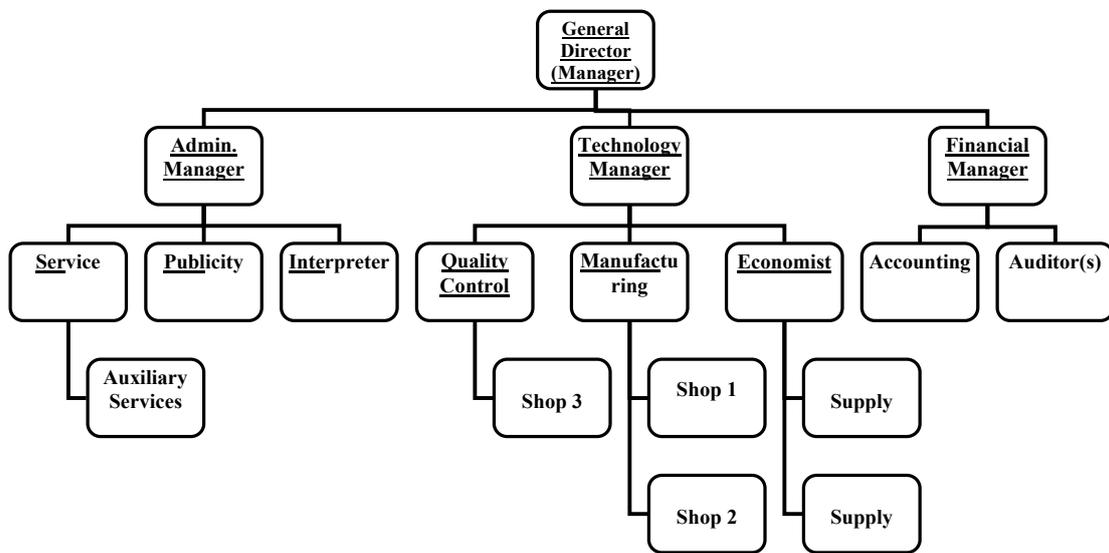


Figure 1. Organizational chart of a 100% Russian enterprise in China (by interview)