Corporate Governance of Chinese Multinational Corporations

Case Studies

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Foreword

Multinational corporations (MNEs) have presumably become the significant driving force behind globalization. Through hundreds of years of development, it has experienced the climax of the development of three waves of multinational companies in Europe, America, Japan, South Korea, and China. Especially after the global financial crisis in 2008, Chinese companies have continuously established their footprints and expanded their business scale internationally, which has been gaining worldwide attention. According to the Fortune Global 500 list in 2019, there were 129 Chinese companies on the list, surpassing the United States for the first time. The collective rise of Chinese multinational companies has a significant impact on the development of the world economy and technological progress.

With the increase of foreign direct investment of Chinese MNEs, operational risks due to weak corporate governance mechanism in the process of internationalization have become increasingly prominent. In this vein, governance of MNEs has become a critical research area as well as a practical issue in recent years. Upon the firm's internationalization process, the first challenge would be the difference in institutional settings, since the multinational governance needs to adequately address the adaptability of regulatory environment, social and cultural institution, and local corporate governance mode. In addition, the diversification of governance system and operational practice which caused by the geographical boundary expansion with entrusted principal-agent chain extension and information asymmetry not only enhance the multinational coordination costs, but also lead to high business costs. Therefore, the study of how to integrate multinational corporate governance and to construct a system firewall for transnational operational risks are crucial to improve the company's transnational operational capabilities and leverage the product and capital markets.

With more Chinese enterprises establish business globally, they have gradually developed their paths with Chinese characteristics while integrating into the world business stage. Some of them have grown into the league of world-renowned multinational groups. However, the majority of Chinese MNEs have been puzzled by the problem of corporate governance and institutional gaps which have hampered their development. At this stage, there is no comprehensive review of Chinese MNEs' experience and their business model on corporate governance. This book is intended to fill this void.

Based on in-depth studies of Chinese MNEs, this book is the first empirical study of Chinese MNEs supported by primary real-life cases. It has provided valuable empirical evidence to support the arguments surrounding theoretical research of MNEs governance. It is an excellent example of collaborative work between China Academy of Corporate Governance Research in Nankai University and the Faculty of Business Administration in the University of Macao. It has provided valuable managerial, policy insights and implications for business executives as well as policy-makers.

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Jean Jinghan Chen joined the University of Macau in 2018 as a Chair Professor in Accounting and Finance and the Dean of Faculty of Business Administration. Prior to joining the University of Macau, Professor Chen worked in the United Kingdom's higher education sector for almost 30 years. She was the founding Head of Southampton Business School and a Chair Professor in Accounting and Finance at the University of Southampton in 2014. Professor Chen also worked as the Associate Dean of Faculty of Business, Economics and Law, the Vice President and Chief Executive of Surrey International Institute, and a Chair Professor in Financial Management at the University of Surrey, as well as the Executive Dean of the International Business School and Chair Professor of Accounting and Finance at the Xian Jiaotong branch of Liverpool University.

Professor Chen was elected by UK Business Schools and held two senior roles as a Council Member and the Chair of the Council's International Committee in the UK Royal Chartered Association of Business Schools (ABS) during 2014 and 2015. She was also elected by the China Management Academy in November 2015 to serve as an Executive Director of the China Academy of Management has been in that position since then. To recognize Professor Chen's outstanding contribution to High Education, the Ministry of Education of China presented her with the prestigious national "Outstanding Overseas Scholar" award in 2012.

Professor Chen has been recognized internationally as an expert of accounting and finance in general and more specifically in the field of corporate governance. This recognition has been reflected by serving as an editor on the editorial board of some of the world's leading academic journals, delivering international conference keynote speeches and seminars and participating in advisory and review bodies. She has published over 100 articles in leading international academic journals and conferences, including *Strategic Management Journal, Journal of Management Studies, Journal of World Business*, *Journal of Business Research, European Financial Management, European Accounting Review* and *British Accounting Review*. Professor Chen is a Fellow of CPA (Australia) and a fellow of the Higher Education Academy (UK).

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He has taught M.B.A., EMBA, and graduate students *"Information technology management", "E-business in China," and "Internationalization and corporate governance of Chinese enterprises"* in Chinese and English to Chinese students as well as international students from Minnesota University (U.S.), Bryant University (U.S.), Flinders University (Australia), Rouen Business School (France), Moscow International Higher Business School (MIRBIS; Russia), and EMLYON Business School (France). The *Information Technology Management* course, which is taught in English, has been awarded "Brand Course of English Teaching for Overseas Students in China" by China's Ministry of Education.

Dr. Lin has been the principal investigator (PI) of 10 research projects supported by the National Natural Science Foundation of China (NSFC), China's Ministry of Education (MOE), and provincial-level research grants, participating in 15 research and consulting projects from NSFC, MOE, China's Ministry of Science and Technology, SASAC, and other government agencies, including the World Bank, ADB, and big firms. Currently, he is leading a team on a key project from the NSFC on "*Transnational corporate governance and evaluation of business groups from China*," and based on this, the study of corporate governance has been expanded to business group governance and transnational governance from the perspectives of multilevel analysis and network analysis of the Chinese multinational corporations.

Dr. Lin is the deputy dean of the Business School of Nankai University, China, and he also served as the Deputy Director in the Office for International Academic Exchanges, Nankai University, China from 2007 to 2016. He is an expert on international mobility of college students and international collaboration among universities and higher education institutions.

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CHAPTER 1

Introduction

Economic globalization has become one of the most fundamental characteristics associated with the evolving world economy, in which multinational corporations (MNCs) are viewed as an important driving force of global economic integration by their overseas investment and strategic adjustment. In China, with the deepening of its "Going Out" and "Belt and Road" national strategies,[1] an increasing number of Chinese MNCs have been stepping onto the world stage and participating in global competition.

Since it joined to the World Trade Organization (WTO) in 2001, China and Chinese corporations have been gradually participating in multinational business operations and global competition, which has accelerated the progress of internationalization of Chinese corporations and the development and implementation of the national strategies mentioned above. According to the Statistical Bulletin of China's Foreign Direct Investment by the Ministry of Commerce, China's total outward direct foreign investment in 2003 was only 2.9 billion US dollars, which

[1] The "Going Out" strategy (also referred to as the Going Global Strategy) was an effort initiated in 1999 by the Chinese government to promote Chinese investments abroad. The Government, together with the China Council for the Promotion of International Trade (CCPIT), has introduced several schemes to assist domestic companies in developing a global strategy to exploit opportunities in the expanding local and international markets.

The Belt and Road Initiative is a global development strategy adopted by the Chinese government in 2013, which involves infrastructure development and investments in nearly 70 countries and international organizations in Asia, Europe, and Africa.

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has since risen sharply to 143.04 billion US dollars in 2018, a 48-fold increase over 15 years. Chinese corporations have therefore made tremendous progress in the magnitude of transnational investment.

However, compared with MNCs in developed countries, which have been running their business for a long period of time, Chinese MNCs are relatively newer players in operating international businesses and participating in global competition. Due to the complexity of the stakeholder relationships involved among home countries and host countries, Chinese MNCs have faced many unprecedented challenges in multinational business operation and governance. The institutional differences caused by the regulatory systems in different countries further expose Chinese MNCs to a variety of institutional constraints, which exacerbates the uncertainty of operating their international business and conducting multinational governance.

Over the last few decades, many leading Chinese companies have gradually developed international business operations, using a "learning by doing" approach based on their understanding of transnational governance. Given the importance that firms' governance structure can have on their implementation of corporate strategic decisions, including outward foreign direct investment, the entry mode and location of overseas ventures, corporate governance has been viewed as a system of interrelated general and institutional elements of multinational corporations. Thus, most of the existing Chinese MNCs have a urgent need to know about what efficient and effective governance structures and mechanisms of multinational corporations should be, and how to improve their current governance structures to facilitate multinational business operations and enhance the quality of multinational governance, thereby gaining certain types of competitive advantages in the long run.

In this regard, it is important and worthwhile to sort out and explore current typical problems faced by Chinese MNCs in their international business operations and transnational governance, and to analyze whether and how corporate governance as an important institutional element of MNCs affects different stages of their internationalization process. Such exploration and analysis can improve their ability to conduct transnational governance, thereby facilitating the implementation of the "Going Out" national strategy. However, based on research conducted to date, little is known about these important issues related to Chinese MNCs.

Thus, the aims and objectives of this book are to identify various difficulties encountered by Chinese MNCs when they employ "going out" strategies, such as misunderstanding of institutional differences between home countries and host countries and inefficient or inappropriate entry mode and location of overseas investments. Moreover, this foundational knowledge is used to investigate the effect of their corporate governance practices and adjustments that take the form of corresponding countermeasures in international business operations and transnational governance, which is all considered in the context of globalization.

Specifically, this book provides a review of eight typical cases and examples selected from current practices of Chinese MNCs across various industries by using a case study approach. The book identifies and analyzes the deficiencies and challenges faced by a number of Chinese MNCs associated with their involvement in the internationalization process, and it also explores how Chinese MNCs deal with issues, such as ownership control, board of directors, governance mechanisms, and performance incentives in transnational governance. The book also describes the characteristics, experiences, and lessons of these Chinese MNCs when they operate internationally and conduct transnational governance, thereby providing valuable practical insights and implications to facilitate both the development of Chinese MNCs and the implementation of "Going Out" strategies. For example, by analyzing eight Chinese case studies, the book is the first to identify and suggest three important governance mechanisms implemented by Chinese MNCs, namely stakeholder governance, board of director's governance and executive governance. The book also suggests a typical evolutionary process of corporate internationalization, which includes the following four stages: (1) the basic stage; (2) the transition stage; (3) the conflict stage; and (4) the formation stage. These important revelations and suggestions detailed in this book provide new insights and guidelines for how to improve practices and the implementation of business operations by existing and potential multinational corporations.

This book consists of eight case study chapters. The second chapter analyzes the multinational governance of Alibaba Group, an E-commerce giant, and its strategies of overseas investment and governance. This case study not only explores the evolution of Alibaba Group's parent company's equity, board structure, corporate control rights, but it also sorts out and summarizes the strategies and challenges of Alibaba's transnational governance and overseas entry mode.

The third chapter analyzes the transnational governance of Geely Group's acquisition of Volvo. From the perspectives of Geely Group's