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Strategic Implications of Emerging Chinese Multinationals: The Haier Case Study

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Recent years have witnessed the emergence of Chinese multinationals with a presence in both developed and developing countries. Yet little is known about them. This paper presents a case study of one of the leading Chinese multinationals, the Haier Group. It addresses the internationalization strategy that has made Haier successful, factors influencing the strategy, and the strategic implications for both Western and Chinese companies.

Keywords: Internationalization, Chinese Multinationals, The Haier Group, International Business Strategies, Developing Countries

Introduction

China is rising as a globally influential political and economic power. Having achieved an average growth rate of nearly 10 per cent over the past 20 years, China already ranks as one of the world's largest economies and trading powers. This rapid economic development has strengthened China's international competitiveness. Many Chinese blue chip companies have seen the limitations of the Chinese market and are striving to become global players. Many of them have already quietly moved into international operations. Some exemplary names of Chinese multinationals include Haier, Changhong, TCL, HiSense, Gree, Kelon, and Chunlan.

Although the Chinese government encourages the internationalization of Chinese companies, it has not yet developed a facilitating policy framework for such activities. Many Chinese companies have started to pursue internationalization on an experimental basis while the government has adopted a flexible and practical approach to governing their international initiatives. For instance, it has given special permission to certain companies to invest overseas without being restricted by existing policy hurdles such as foreign exchange controls.

To date, little has been known about the international activities of Chinese companies. This paper, using the case study method, examines strategies, influences, and process whereby the Haier Group, a leading Chinese home appliance manufacturer, has developed into an influential Chinese multinational. Haier has invested aggressively in a large number of developed as well as developing countries in the last few years and taken a large tranche of market share in those countries.

The paper addresses strategic implications from the experience of Haier's successful international expansion, prepares Western companies strategically for the arrival of Chinese competitors and facilitate the development of their strategic response. Haier has already made some international manufacturers such as Sanyo play catch-up (Fonda, 2002). The success or failure in the internationalization of Chinese companies will also have an important impact on both future government foreign economic policy and the Chinese companies that seek to invest internationally.

A Framework for Examining Haier's Internationalization

The classic environment – strategy – performance framework is deemed appropriate for the case study as it is suggested that the alignment of a firm's strategy with its environment is more than likely to result in better performance (Miller and Friesen, 1983). It has also been found that specific international environment and business-level strategy matches are associated with performance outcome (Carpano *et al.*, 1994). The change in China's business environment has driven Chinese companies to go international and adopt various responsive and offensive strategies. Those that match their strategies with environmental conditions may become successful.

Figure 1 presents a framework for the internationalization of Chinese companies. In this framework, the 'environment' is divided into positive factors (impetus) and negative factors (constraints). As can be seen, internationalization initiatives are driven by both internal and external factors. Internal factors include management aspiration, resources, and informational and technological advantage. External factors embrace trade barriers, the saturation of domestic markets, international opportunities, and responses to international competitors. Internationalization initiatives can be constrained by factors such as the economic system (international financing and foreign exchange control), resources, and international brand image. A successful internationalization strategy can have a positive impact on firm's performance.

Internationalization of the Haier Group — a Case Study

Haier's Development and Performance

Haier's predecessor was the Qingdao Refrigerator Plant (officially renamed as the Haier Group in December, 1992). Mr Zhang Ruimin was appointed as the plant director in 1984, the fourth one in that year. The plant then made a loss of 1.47 million yuan (equivalent to US$525,000). Zhang Ruimin then had to find loans in order to pay salaries for 600 employees. As a loss-making enterprise, it was impossible to get credit from regional banks. Zhang had no choice but to turn to farmers in villages to borrow money. At the same time, he endeavoured to improve enterprise efficiency, discipline, and quality control. Some measures included prohibiting employees from arriving late at work and leaving early for home, and furthermore, forbidding urinating and defecating in workshops. To improve product quality, Zhang Ruimin ruled that if defective products were produced, 20 per cent would be deducted from the salaries of all the employees involved.

Haier developed a market-driven and innovative culture. In 1989, for instance, sales of one model of refrigerator were high in Beijing but under-performed in Shanghai. Through market research, Haier discovered that Shanghai residents then had crowded living conditions, and that there was little space for a large refrigerator. As a result, Haier designed a smaller refrigerator only for the Shanghai market, and sales subsequently surged. In early 2001, based on information feedback from its Middle East branch, Haier developed an air conditioner exclusively for desert conditions. The technology contained in the air conditioner combined strong heat-resistance capability with unique exterior materials and allowed the unit to increase its anti-erosion ability. Once the sample was on the market, the whole orders for 2002 were fully taken by customers from Middle East and African countries.

As Haier's market position was established in China, it started to pursue internationalization from 1995 onwards and invested in manufacturing facilities in the USA as well as numerous developing countries. In 1984, Haier had US$1.24 million sales and employed 600 people. Seventeen years later, its sales reached US$19 billion and profits US$ 5.1 billion, with over 30,000 employees. Its product range has developed from a single line of refrigerators to 86 product categories with more than 13,000 specifications and varieties. With an export volume of US$420 million in 2000 and more than 40,000 sales network points established globally, Haier exports its products to more than 160 countries and regions, and

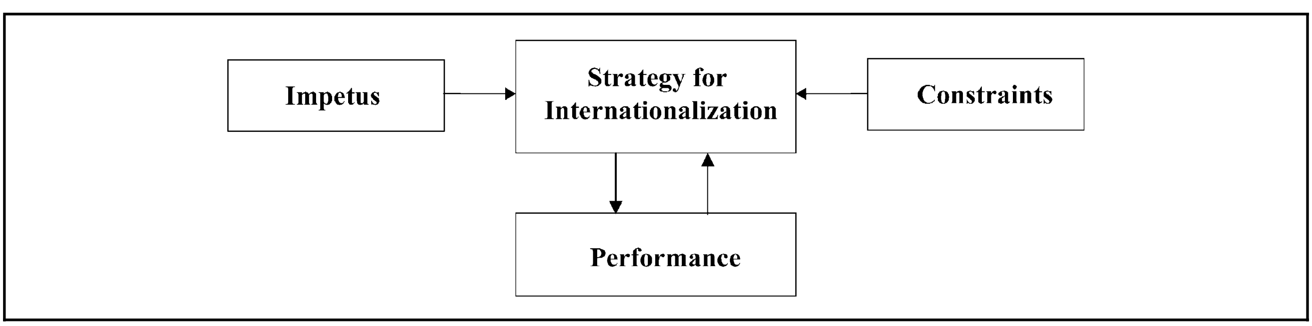

Figure 1 A Framework for Internationalization of Chinese Companies