

# Studying the internationalization process of huawei



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Globalization in recent years has brought about the continual rise in foreign direct investment (FDI) (Haskel, Pereira & Slaughter 2007). Multinational Enterprises (MNEs) internationalize because of numerous factors that include economic scope, costs reduction, search for new opportunities, diversification of the markets, flooded domestic market etc.

Internationalisation is certainly not a smooth sailing and some firms are not successful; but undoubtedly, an MNE will emerge and grow to be the new worldwide market leader.

This case study examines and discusses the internationalization process of Huawei, strategies used and the host country, a leading player in global telecommunication industry. This research seeks to explore the international business activities of a Chinese firm to identify the factors that influence its international strategy decision. In this paper, the MNE's several strategies were discussed. The issues of how, when and where to penetrate into a market and factors that should be put into considerations before venturing in the foreign market are looked into. The host market environment is discussed and exemplified based on the case study; therefore, this study analyses the internationalization process in emerging markets. It is established that industrial features and home country's hi-tech reputation influence to a great degree the internationalization path of the firm studied. The research also shows before a firm undertake an international assignment it must plan first. Planning helps the firm avoid mistakes in its initiative. Despite the intentions of firms to internationalize and the benefits involved, there are difficulties that the firm have to overcome for internationalization to be successful.

## Introduction

In this study, the emerging markets as a new and significant arena for global operations location for companies across the world will be discussed. The analysis in the research will centre on the rationales as to why MNEs across the world are attracted to emerging markets.

## Background

The advancement of technology in the modern world and the gradual breakdown of trade barriers have enabled the world economy to be more and more integrated and the effect of globalization is the growing amount of MNEs from developing countries internationalizing in a rapid manner that is very effective. After decades of development, many enterprises stride their first move in internationalization. Among them, Huawei is an archetypal representative. MNEs (especially in developing countries) are increasingly playing a significant role in the world economy. Selection of location is most likely one of the critical and most complex decisions facing MNE. Country-level determinants like political and social stability and industry-level determinants (Shenkar & Luo, 2007) can influence a company's location choice; but firm's capabilities such as possession of key assets by a firm e. g. technologies, trademarks and other intellectual properties, which might be relatively important. MNEs are searching for a suitable location for investment where they can expand their business and increase their incomes and profitability. This move is not always supported by the home country or welcomed by the recipient country. The internationalization of firms has revolved around the risks and profits of different market entry

modes, however, Internationalization benefits cannot materialized without an action plan or strategy for achieving the given organizational objectives.

Without a suitable strategy or plan, any international assignment is bound to be unsuccessful.

### Assumptions

In terms of efficiency, the company operating in a numerous of countries gets benefits relative to the company operating only in one country from scope and scale, but these benefits are constrained by coordination and operating costs that increase the more far-away the location from corporate headquarters. Firm's ability to do so rest or depends on their learning capabilities. Whether the benefit lies with developed or emerging economies MNEs will depend relatively on the value of local and global learning, and of the relative multipoint learning capabilities of the two. Many Western enterprises have set-up learning stations in countries such as Japan in the form of Research & Development facilities.

### Research Questions

The research is comprehensive and result oriented and the questions play a big role in comprehending international business (IB) strategy. In addition, the study of several literatures is meant to allow for greater understanding or enhanced ability to consider the plan of internationalization. This paper in search to respond the following objectives:

What IB strategies firms use in entering a foreign country-market?

What are the entry barriers in a particular emerging market?

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What factors influence the internationalization path of a firm?

What is the level of success achieved by the MNE in the selected market for international business presence?

Company overview

In 1996, Huawei made its first move of internationalization by providing services for Hutchison Telecoms in Hong Kong. That same year thereafter, the high-tech firm made a decision to enter foreign markets. The first selected markets were Southern America and Russia. In Russia, it set up a joint venture with prominent firms. The business of Huawei in the Russian market grows up quickly. Huawei extended its target markets to other countries, including Southern Asia, Middle East and Africa. In just 18 years, Huawei has grown from a corporate midget into a mighty global contender in one of the world's key industries. The Chinese MNE competes with multinational big players in the global market - Nortel, Alcatel Lucent, Cisco - and wins contracts from the top global telecom companies, mainly by considerably undercutting the prices of its competitors in the telecom products and solutions business.

## 2. Literature Review

### Economic Situation in Emerging Markets

Firms from all over the globe are searching to do business in economically developing country-markets because of its huge potentials. Opportunities for low cost production are altering emerging markets (EMs) such as China, India, Mexico, South Africa and Africa in general on a regular basis.

Multinational enterprises like Gap, PZ, Coca-Cola, Microsoft, MTN group have <https://assignbuster.com/studying-the-internationalization-process-of-huawei/>

already grasped the great potential by expanding their business in these markets. For instance, in 2005, Huawei's sales soars to over 80 billion, of which 58 per cent came from foreign markets. Majority of its revenue came from Africa, Southern Asia and Middle East. These regions are representative for the economic performance of EMs during the past few years. Venturing in crucial markets as these, have become an increasingly significant strategic preference for MNEs. It is not an easy task to identify the appropriate strategy to penetrate foreign country-markets as different countries have different rules and systems, determined by the political, legal, economic and cultural environment in each jurisdiction (University of Liverpool/Laureate Online Education, 2010). Regardless of the unpredictability in the world economy, EMs has grown significantly. Today, emerging markets contribute huge percentage to the global economy and will grow more important in years to come. Developing economies have not only transformed their domestic markets but also the worldwide economic settings because of their rising importance in recent times. Important economic factors, like commodity costs, grew greatly, mostly driven by the huge demand from EMs. It can be said that EMs greatly increased their influence in today's internationalized economy. EMs has supported the world's Gross domestic product with their growth and is crucial in sustaining the continuous global economic development.

### International business strategy

Operating on an international scale needs a special type of tactics and strategies to gear different businesses and subsidiaries that are situated widely in separate locations. A company's international business (IB)  
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strategy must have right structures in place for the management and coordination of MNE's operations.

This requires for specialized knowledge of the business practices, broad understanding of the environmental conditions and a reasoned selection of the best likely locations for specific business activities. IB strategy must attempt to identify highly effective balance between global integration and local responsiveness jurisdiction (University of Liverpool/Laureate Online Education, 2010). Economic scopes and scales have to be traded cautiously against the competitive benefits to be obtained from meeting the particular requirements of different markets.

Integrating every activity effectively and strategically coordinating the various organizational units within and across national barriers presents more complex challenges. Superior organization must be the focal aim of any business strategy, thus, effective management of business activities is simply one aspect of this. International strategy must thoroughly weigh down the constrictions as well as the opportunity that exist in different counties where firms are located. This means taking total cognisant of the social, political, legal and economic environments in all location and how these impacts any business decisions agreed on centrally.

### Country competitiveness

Some markets are good to venture into. Such markets may contain a range of opportunities that are promising for an MNE. Country competitiveness is a decisive factor for MNEs on where to position business presence and on entry modes. Country competitiveness is the institutional framework, rules, <https://assignbuster.com/studying-the-internationalization-process-of-huawei/>

and factors that ascertain the extent of productivity of a nation. Global Competitiveness Index (GCI) is a reliable source to identify countries rankings based on key factors considered as modern-day competitiveness. The role of governments is a very important factor to bear in mind, as governments are primary drivers of the success of international business and specifically country competitiveness. However, determinants like political & social stability, industry-level determinants and endowment (Shenkar & Luo, 2007) are factors that attract a company, its choice of foreign market entry mode and location selection.

#### When to internationalize

Timing is very important and also a significant factor of success or failure. Firms can be either a first or early mover or later entrants. A firm can enjoy substantial rewards as a first or early mover in a market, but it poses disadvantages as well. Early entrants can seize lasting customer loyalty basically from being before the rest companies of its kind enter the market. Bank of America and Citibank (Shenkar & Luo, 2007) are good example of how early mover can gain this sort of market power. Further, companies can win by pre-emptive advantages as one of benefits that are offered to early movers. Nonetheless, first-early movers experience numerous risks and uncertainties that might have considerably decreased by when late entrants turn up. For instance, high costs of entry and unclear foreign investment rules may still be, giving legroom for corruption; Counterfeiting and copyright violation, and inadequate infrastructures. By the time the late entrants come in, many of these difficulties would have been levelled out.

There are lots of instances of success and failure where the time to <https://assignbuster.com/studying-the-internationalization-process-of-huawei/>



internationalize can be an important factor. Deciding the most effective entry mode for a foreign market is a complex issue and a key strategic decision.

### Successes and challenges of MNEs in emerging markets

MNEs are constantly searching for a location with less competition and more granted incentives and support. Knowledge is regarded as one of the factors that can equally help MNEs in the expansion and the host country to develop and prosper. The simple fact is that knowledge is not costly to transfer and it does not necessarily need putting up infrastructure to penetrate through.

Knowledge-assets are crucial for MNEs and this because of the fact that most MNEs tend to have large R&D investment, numerous knowledge workers and produce technologically advanced products. Hence, capital, sophisticated technology and knowledge are the benefits MNEs have to make a triumphant entry into emerging market. That's why they have the ability to drastically strengthen investments that generate effective strategies. MNEs find plenty of opportunities in the developing economies that are not available to them in their own country such as low-cost labour, foreign investors' incentives, and concessions.

Companies pursuing diversification strategy in foreign markets could encounter risks posed by diverse cultural beliefs, political forces and actions and their correlates Citibank (Shenkar & Luo, 2007). Just as the political setting presents a critical part of the analysis in domestic market, it affects an organization's international strategies As companies perform business in emerging markets, they may encounter economic instability, different

accounting practices competitive shortcoming, and financial loss and so on as a result of the political and legal actions. Drastic political changes are fact of life in various countries and MNEs have to develop sensitive antennae for any seismic shift in government decision. Another problem that MNEs can meet in the developing nations is being suspected as a danger to the country sovereignty. Also, MNEs could be perceived as gaining unfair benefits over local organizations and this can affect their image, reputation and perception which can eventually put the business operation at risk.

### Methodology

The purpose of this research is to analyse the international business activities of a Chinese Hi-tech MNE. It is through investigating the successful account of Huawei that is discussed, the experiences and related theories. In this study, IB strategy decision was adopted as the research framework. The research paper also gathered data from existing related literature, Internet database and articles. A case study approach is adopted for explanatory, exploratory, and descriptive analysis is useful in producing new and correct insights from the trend under study. Case study design allows issues to be taken as an independent research to validate or invalidate a theoretical framework. This approach also allows for the use of data obtained to assess various factors, their effects and influence that they contain on internationalization in emerging markets.

### Descriptive analysis

#### Huawei strategies and entry mode in Nigeria

Huawei was launched in Nigeria in 1999 by setting up branches and service centres with 50 percent of workers being local. The company serve as pioneer and has a top position in the Nigerian telecommunications industry as result of being early entrant. It is evident that the internationalization of the firm is successful up till date. This success depends on the right IB strategy employed but the influencing factors are the issues of country conditions and geographical distance. The international strategies that were adopted and are still at the firm's disposal are export mode, contractual mode and turnkey mode. The strategic decision is based upon the characteristic of entry mode: low resource commitment, High flexibility and low distribution risk. These strategies that were used are well-matched with the internationalization theory.

The major reasons that influenced Huawei internationalize path in emerging markets in West Africa are to gain a higher market opportunities, maximize profits, exploit opportunities, to expand and have a better feeling of the market. The deregulation wave in Nigeria and tariffs and non-tariff barriers reduction are also factors that attracted them to the country. Huawei also went into partnership agreement with the government as means of risk reduction. From this viewpoint, MNE's choice of entry mode is not mainly based on the firm-level factors. By contrast, it's based more on the industry-level factors and products as well as the host country environmental factors.

#### Recommendations and conclusion

The future development will enhance the competitiveness of the country and attract MNEs from across the globe to invest. However, success is not

assured, even with the great business opportunities that countries provide. MNEs have to be alert of various difficulties that any country poses, such as political risk, inadequate infrastructures or copyright infringement. Success is not by the firm's products but by strategy tripod.

The purpose of this study is to ground and examine and appreciation of international business, and to foster best practices. At least, it is helpful for MNEs searching for to find out local views and expectations of what company needs to consider and do to be a good ' neighbour'. However, it's assumed that more can be expected to create, sustain, and mend relationships between the company and community where it operates. MNEs need to consider discretionary expectations for it to be good, as well as reactive and reflective.

While internationalization is an everyday occurrence in the world of business, there has to be reason in a firm's pursuit of International business.

Economies of scope are the core reason behind it. But, that is not sufficient - there should be an effectiveness focus, too. That is, international diversification has to generate value thus; there is no logic in pursuing an international strategy if it does not achieve competitive advantage to a firm.

In conclusion, emerging markets can serve as a ' mine' for any MNE. For some, it is certainly a ' gold mine' of incomes and returns. For others, they are a ' mine land' that steers to failures and quick withdrawal. The difference is clearly in approach - how and when to enter and ways of doing business in a new country-market. Come in equipped, and these markets can surely be a gold-mine.