

University of Halmstad  
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# **INTERNATIONALIZATION AND ENTRY STRATEGY OF ENTERPRISES:**

**A Case study of Chinese firm: Huawei**

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## **Abstract**

A lot of theories have been propounded that has made great contribution to the enterprise internationalization and entry strategy. However, no acceptable conclusion has been made on how firms internationalized and what is factors influenced firms choose their strategy. This development necessitates further study on the firms internationalization and entry strategy. Hence the research was explorative in nature and adductive approach was comprehensive adopted with interview.

Further more, the firms have been using various approaches in entering their target market. Some prefer to consolidate their position at home and concentrated their efforts on exporting, while other took aggressive steps and invested directly in the foreign market. Thus, the study examined the entry strategy of firms, and the factors that influence the choice. This was aimed to gain deeper insight on how firms enter the target market. From the findings, it was revealed that, Huawei had adopted partnership, establishment of owned subsidiaries and make high technology co-operation in the world, while the company resorted to strategic alliance and joint venture after the China economic reformed till present moment. Moreover, we found that the owner and management exerted their influence on strategic direction of the firm, but the choice of entry strategy was mostly influenced by firm vision, business offering, resources and capacity, while market conditions acted as exogenous factors.

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# CHAPTER ONE

## INTRODUCTION

### 1.1 BACKGROUND:

The disintegration of the former Soviet Union and the socialist bloc, the abolishment of the Berlin Wall, the integration of Europe in 1992, the liberation of Eastern Europe and continuous rise of Asia- pacific region etc, signifies a pointer to the drive and wave of unification that is blowing across countries, regions, continents to make the world a Global village with borderless entity. (Zuidhof 2003)

The thrust of Global-Trade-Wind brought about a lot of opportunities and challenges. More and more firms are becoming involved in international activities and are exhibiting behaviors not previously seen before. It is obvious that valuable lesson can be learned from the study of internationalization, from historical perspective so that methodological inadequacies can be identified and new paradigm of enquiry can be promoted in order to better understand the entry strategy of firms (Grant 2005). Though, the motives for going across border are different from one firm to another. While domestic market was inadequate for some firms, others pursued internationalization because of economies of scale and opportunities available. If firms preferred to feel happier remaining home-bound in the past ages, there have been remarkable changes and adaptations in respect to responses to the demand of the global trend (Stephen Henderson 1989).

Consequently, more countries opening up their trade borders, elimination of barriers and joining the WTO, acted as a booster to firms' internationalization process. Moreover, the threat that firms are no longer secured by staying in their domestic markets as well as easy penetration of domestic market by foreign firms due to communication and technological breakthrough made it mandatory for many companies to go international or at least expand their activities across their national border. While some firms prefer to export their product and consolidate their home market, others prefer to adopt a more aggressive approach by acquiring other firms, forming alliances, going into joint ventures or finally establishing their own subsidiaries. In order to understand and appreciate this inconsistency, we study how firms enter foreign markets; by identifying the choice of entry strategies and the factors that influenced such choice. This is to increase the stock of knowledge in international business and positively to serve as a guide to other firms when entering foreign markets.

Deal with "globalization" this issue, how to manage their business and how to establish the international strategy will be more important for firms. It is important to recognize what strategies are feasible to be transferred abroad and then learn what needs to be adapted. In accordance with this, Ohmae (1994) argues that global

localization is the most advanced form of the globalization process, hence the management both have a global and a local orientation. The different external factors also is influencing between parent and host organization such as cultural, political; economic and legal distances.

## **1.2 The Problem Statement:**

The internationalization of multinational companies into emerging markets is a development that involves a great deal of risk due to volatile markets in the sense of both political and economical instability of Countries. In such a way, it becomes rather complicated to evaluate the how firm can enter the market. Consequently, the firms choose different paths when entering these markets for different reasons. Some companies prefer the gradual path considering one market after the other, taking into consideration time and knowledge; whereas others avoid a step-by-step approach. This thesis will specifically handle Chinese multinational companies that had involved in the international market and study their entry strategy. This will enable us to answer, the research question of how firm internationalize which surrounded two basic questions:

What is enterprise's internationalization process?

What influence the choice of the strategy?

## **1.3 Purpose**

The purpose of the project is to increase the knowledge in the field of international business through investigate, describe and analyze how firms decide to go abroad. To achieve the purpose, we studied Multinational Companies in terms of the internationalization and entry strategies employed as a tool, in executing their international marketing goals, this will allow us to have deeper insight on how firms internationalize and what circumstances influence the choice of entry strategy.

## **1.4 Delimitation**

Internationalization of a firm is a broad topic and a complex phenomenon; it is difficult to identify internationalization process from different types of firms, so in order to come up with good analysis and clear understanding I have to limit it to one case study. One restricting factor is come from thesis-self, because science cannot always explain or predict human behavior by means of common, generally accepted principles (Isaac Asimov 2002). The scientific marketing management literature also seems to lack complete explanation or predicting the firms' in internationalization behavior accurately. As a matter of fact, under the emerged global environment in the

past decades, substantial growths in the field of researches in marketing have been observed to become evident. Ironically, this has brought more controversies and debates rather than success in synergized all thoughts and findings, to generate acceptable conclusions. Internationalization is a complex phenomenon; different perspectives are needed to understand it. (Bjorkman, 1990).

Another most important factor was time. The given time frame makes me to limit the study to one company, instead of several companies to be able to compare differently how the processes have been.



# CHAPTER TWO

## LITURATUA REVIEW

### 2.1 Introduction

This section of the project examined the existing literatures on the research problem. This is to identify relevant information that may be relevant and useful in answering the research question. Consequently, the chapter is divided into two. The first part concentrated on review of Svante. Anderson's (2000) The internationalization mode from an entrepreneurial perspective; Uppsala model and Driscoll's (1995) foreign market entry modes choice framework as guiding tools in analyzing the research findings, while the second parts deal with review of previous research.

### 2.2 Theoretical Framework

There has been much research on internationalization process of a firm. From the literature above it shows that a lot of researchers have written about this process.

The concept of internationalization has evolved in the past three decades. Johanson & Vahlne (1977) defined Internationalization as a process in which the firms gradually increase their international involvement. They claimed that internationalization is the product of a series of incremental decisions.

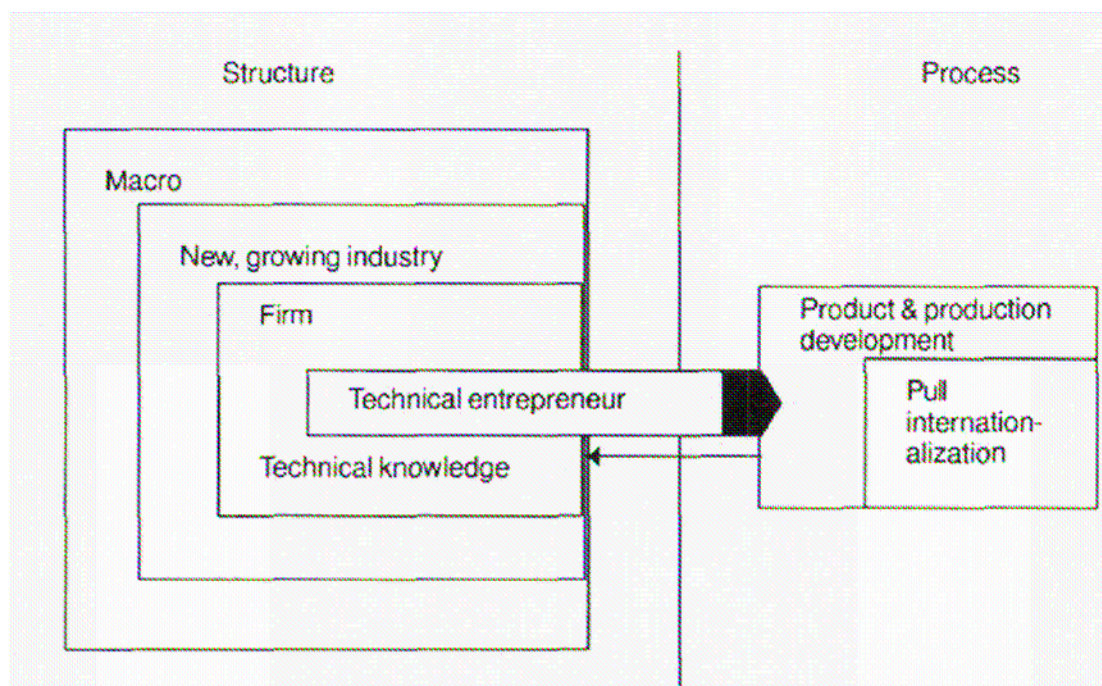
Welch & Luostarinen (1988) discussed the "internationalization" as a dynamic concept: the process increasing involvement in international operations, both sides of inward and outward should be involved in a broader concept of internationalization. Beamish (1990) provides another comprehensive definition: "...the process by which firms both increase their awareness of the direct and indirect influences of international transactions on their future, and establish and conduct transactions with other countries" (Beamish 1990, pp. 77-92; Coviello & Munro 1997). These definitions describe the concept of internationalization from a variety of dimensions. Up till now, the consensual concept of internationalization includes: (1) Internationalization is a process that includes many incremental decisions and strategies. (2) It involves various outward and inward products, service or resource transferring across national boundaries. (3) Internationalization influenced by a series of factors that come from the firms and environments. In this paper, we adopt the definition from Andersen (1997): Internationalization is the process of adapting exchange transaction modality to international markets. This definition includes both entry mode strategy and international market selection.

However base upon my way of analysis, I have chosen to concentrate and use Svante. Anderson's (2000) The internationalization mode from an entrepreneurial perspective; Uppsala model and Driscoll's (1995) foreign market entry modes choice framework as guiding tools in analyzing the research findings.

## 2.2.1 The Internationalization mode from an entrepreneurial perspective

In 2000, Svante. Anderson established Internationalization modes from an entrepreneurial perspective; he the first time to analyze and explain the relationship between entrepreneur and internationalization process. He makes an explanation for how entrepreneur influence internationalization process. The entrepreneurs is distinguished by three types of entrepreneur: technical entrepreneur, marketing entrepreneur and structure entrepreneur.

Figures 1 The technical entrepreneur and international pull strategy

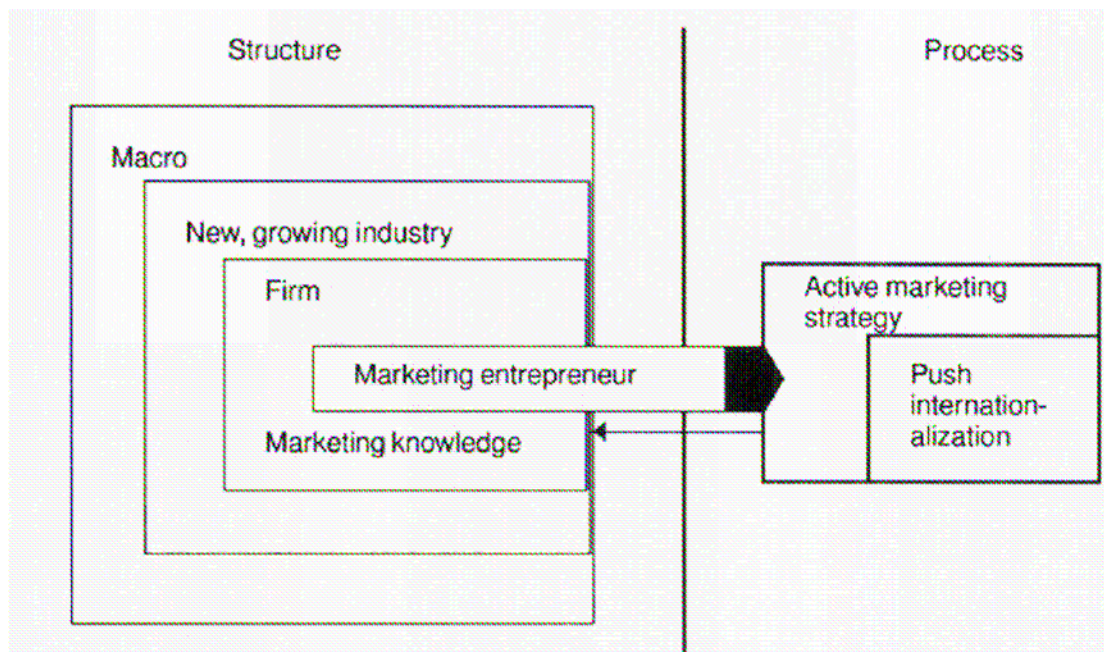


(Source: Svante. Anderson 2000)

### 1. The technical entrepreneur and international pull strategy

The technical entrepreneurs mainly focus on technology. The most important is products and production development. Internationalization is not they main interest but the new product can be known through the international network a request from abroad can lead to exports or licensing agreement. These international activities do not acquire fully owned subsidiaries and the industry structure for markets with new products is mainly emergent or growing. The markets are entered depends on which countries are making the inquiries

**Figures 2 The marketing entrepreneur and international push strategy**

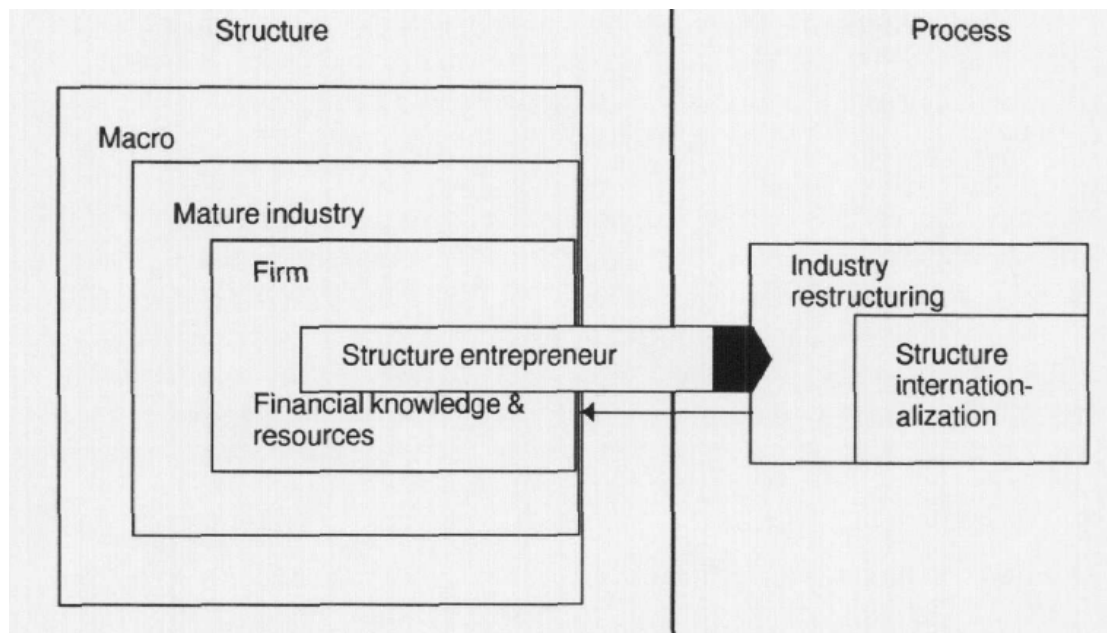


**(Source: Svante. Anderson 2000)**

## 2. The marketing entrepreneur and push strategy

This marketing entrepreneur has found a need in the market and has ideas of how to fill this demand. They considered the market channels and brands are more important than the products. He is proactive in internationalization process and willing to develop new international ventures and choose establishment model, such as Greenfield establishment which need a lot of resources. These establishment models make it possible to penetrate markets more quickly. Marketing choose are depending on the personal preference and network is important.

**Figures 3 The Structure entrepreneur and international restructuring of the industry**



**(Source: Svante. Anderson 2000)**

### 3, The structure entrepreneur and international industry restructuring

The structure entrepreneur acts in mature industries and his strategy is implemented at cooperate level which means his not direct intervene in operational matters.. He is trying to restructure the company and industry by combing organizations. From this perspective, the internationalization is not separate but a consequence of the overall strategy. He prefers acquisition and mergers to reduce the capacity in the industry. Marketing chosen in accordance with the competitive acquisition and markets without attractive acquisition or merger are not entered.

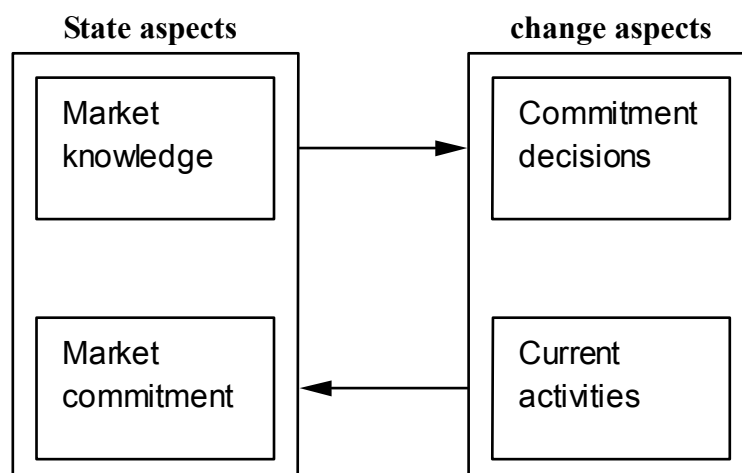
## 2.2.2 The internationalization Process Mode: The UPPSALA

### MODEL

To explain the sequence of development, it was hypothesized by Johanson & Vahlne (1977, 1990) that firms would enter new markets associated with successively greater psychic distance. Psychic distance was defined as the factors preventing or disturbing the flow of information between a firm and its markets, including factors such as language, culture, etc. To explain the incremental nature of the process, Johanson & Vahlne (1977) further formulated a dynamic model, in which the outcome of one cycle of events is seen as providing the input for the following cycle. They established four stages of firm internationalization process. They posited that first are preoccupied with home market at initial stages and no regular export activities. After consolidated their presence in the home front, they extended their activities across border through exporting via independent representative or agents. The third stage involved firm committing their resource in the international market by establishing oversea sale subsidiary, while the final stage entailed establishment of foreign manufacturing/production facilities. This proposition has been improved upon and integrated in their work in 1990 which is presented below. The basic structure of the model is provided by the distinction between state and change aspects of internationalization. The former include foreign market commitment (i.e., resource commitment) and knowledge about foreign markets and activities. The change aspects include the decisions to commit resources and engage in foreign activities, as described below. The basic assumption is that market knowledge and market commitment affect both commitment decisions and the way current activities are performed which, in turn, affect market knowledge and commitment. (Andersen 1993.)

#### The Model Basic Concept

Figure 4, Source: Johanson and Vahlne, 1977



### **2.2.2.1 State aspects**

Infer from above, the state aspect is separated into market knowledge and market commitment.

#### **Market commitment**

The market commitment concept is according to Johanson and Vahlne (1997) composed of two factors- the amount of resources committed and the degree of commitment. The first factor, resources committed, could be described as the size of investment in the market, including investment in marketing, organization, personnel, and other areas. The other factor, the degree of commitment, is not that easy to grasp, but could be explained as the difficulty of finding an alternative use for the resources and transferring them to this other alternative. The more specialized the resources are to the specific market, the greater the degree of commitment.

#### **Market knowledge**

The market knowledge referred to the level of appreciating the market environment. The knowledge might be general or specific. The general knowledge is about marketing methods and concept, involves common characteristics of certain types of customers in term of their taste, attitude, and perception. While specific knowledge concern peculiar characteristics of the specific national market expressed as "... its business climate, cultural patterns, structure of the market system, and, most importantly, characteristics of the individual customer firms and their personnel." ( Johanson & Vahlne, 1977, in Johanson & Associates, 1994, p. 57.) Market knowledge also lay emphasis on the different way how firm acquired through learning from personal experience or being taught (Penrose, 1995). In the Uppsala model, the experimental knowledge is emphasized and it is assumed that this kind of knowledge makes it possible to perceive and formulate opportunities.

Both general knowledge and market-specific knowledge are needed when entering and making commitments to a market. The latter kind of knowledge can mainly be acquired through experience in the specific market, whereas general knowledge can be taught and transferred from one market to another. The Uppsala model is postulating a direct relation between market knowledge and market commitment. Knowledge is considered as human resource and the better knowledge a firm has about a market, the more valuable the resource and consequently, the firm will have a stronger commitment to the specific market. (Johanson & Vahlne, 1977, in Johanson & Associates, 1994.)

### **2.2.2.2 Change aspects**

From the figure 1 above, the change aspects that influence the state aspects are current activities and commitment decisions.

#### **Current Activities**

The model stated that current activities are of great importance for these reasons. Firstly, knowledge can be acquired through experience from the current business activities. And as stated above, it is through experience the firm can perceive and identify opportunities that may lead to market commitments. The model laid more emphasis on current activities as the impetus for the firm to forge ahead. Therefore, it was expected that the success recorded in the current activities in the market will guide the firm in making further attempt to enter other market. However, the other ways of gaining experience are not considered in the model. Hence, this is one of the reasons why the internationalization is a slow process. Finally, if the activities are highly production-oriented, or if there is a low need for interaction between the activities and the market environment, the easier it will be to start new operations which are not incremental additions to the current activities. It will also be easier to substitute advice from outside and from hired personnel (Johanson & Vahlne, 1977, in Johanson & Associates, 1994).

#### **Commitment Decisions**

The second change aspect is the degree of involvement decisions, which are decisions to commit resources to a market. It is presumed that decision is determined by the level of threat and opportunity in the market, while awareness of these threats and opportunities are assumed to be dependent on the experience from activities on the specific market. The decisions are also dependent on the existing market risk and the existing market uncertainty i.e., the decision-maker's inability to estimate the present and future market and market influence factors, perceived by the firm. The existing market risk is composed of existing market commitments to the market until its maximum tolerable risk is reached (Johnson & Associates, 1994). Consequently, there is an indirect relationship between market risk and uncertainty, and the market commitment.

### **2.2.2.3 Exception to the model**

A firm will internationalize in accordance with the model, which is to make small incremental steps both in the market commitment dimension as well as in the cultural and geographical dimension with three exceptions:

- 1). When firms have large resources, the consequences of commitments are small.



Consequently, large firms or firms with surplus resources can make larger international steps.

2). When market conditions are stable and homogeneous, relevant market knowledge can be gained through other ways than experience.

3). When the firm has considerable experience from markets with similar conditions it may be possible to generalize this experience to the specific market (Johanson & Vahlne, 1990, in Johanson & Associates, 1994).

### 2.2.3 UPPSALA MODEL AND NETWORK PERSPECTIVE

Based on the Uppsala model, Johanson & Vahlne (1990) continue examination of the process of internationalization by applying a network perspective. They define internationalization as developing networks of business relationships in other countries through extension, penetration, and integration (c.f. Johanson & Mattson 1988). They posited that extension entailed investments in networks that are new to the firm, whereas penetration means developing positions and increasing resource commitments in networks in which the firm already has positions. Integration can be understood as the coordination of different national networks. Thus, if the relationships between firms are seen as a network, it can be argued that firms internationalize because other firms in their international network are doing so

		Degree of internationalization of network:	
		Low	High
Degree of internationalization of the firm	Low	<b>The early starter</b>	<b>The late starter</b>
	High	<b>The lonely international</b>	<b>The international among others</b>

**Table 1** source: Internationalization and the network model: to be analyzed (Johanson & Mattson 1988)

The strength of the network model of internationalization is in explaining the process rather than the existence of multinational or international firms. From the network perspective, the internationalization strategy of a firm can be characterized by the



need to

1) minimize the need for knowledge development, 2) minimize the need for adjustment, and 3) exploit established network positions (Johanson & Mattsson 1988), for example agents or consultants. For an early starter, these demands cause significant pressure, since the firm is among the first to develop the network, and the costs of overcoming the problems and developing the needed knowledge may be high. For the lonely international, external pressures are lower than for early starters. However, pressures of resource adjustment may be higher, because of the increased gathering of possible resource adjustments. In addition, the co-ordination of international activities plays a more important role in the case of the lonely international.

The third component is the late starter. The problems encountered by the late starter differ from those of the early starter and the lonely international. On the one hand, firms already within the established network structure may resist the latecomer's efforts to enter the internationalized market. On the other, the customers and/or suppliers in the network may be "pulling" the firm into the international network. Thus, the need for resource adjustment may be high, while co-ordination of international network activities may also be important. If a small firm is exposed to this kind of market structure, it should be highly specialized and adjusted to specific sections of the industry. In addition, the customers' or suppliers' role may play an important role in directing the process.

The international among others operates in a developed and competitive network, in which national differences gradually recede in the face of globalization. As a result, internationalization through external resources may emerge as the best strategic option available to small firms. Thus, merges and acquisitions, co-operation, alliance and joint ventures may become a major source of international network instability for which firms in the network have to be prepared. (Johanson & Mattsson 1988)

## **2.2.4 The Entry Mode**

In this paper, we use the Uppsala model (Johanson & Wiedersheim-Paul 1975) and Driscoll's (1995) foreign market entry modes choice framework as research framework for our case study.

Based on the assumption that the internationalization is the consequence of a series of incremental decisions and the most important obstacles to internationalization are lack of knowledge and recourse, Johanson & Wiedersheim-Paul (1975) introduce the internationalization model: the Uppsala model. The model identified four sequential stages of the internationalization process:

Stage 1: no regular export activities;

Stage 2: export via independent representation (agent);  
Stage 3: sales subsidiary; and  
Stage 4: production/ manufacturing

Johanson & Vahlne (Johanson & Vahlne 1977; 1990) modified this model and suggested a dynamic international model-The Basic Mechanism of Internationalization. The latter model assumes that the market knowledge and Market commitment affect both commitment decision and the current activities, which in turn influence market knowledge and market commitment. The dynamic model indicated that the firm would first target the international market with similar market environment. Both models emphasize that internationalization is a process and follows a 'stage' approach. Although these two internationalization theories have been supported by much empirical and theoretical research, many scholars stand on the opposite side. Turnbull (1987) claimed that the 'stage' internationalization model cannot explain the internationalization in many firms; Andersen (1993) criticized that the discrepancies between the theoretical and operational level exist in these two models based on the principle of theory evaluation; Bell (1995) argued that the relevance of "stage" theories must be questioned, especially in relation to the internationalization of high technology and service firms. Gureea (2002) provided the evidence to question the 'stage' theory through the cases of UK Biopharmaceutical SMEs (small and medium sized enterprises).

Different from the above dynamic models which just mentioned the factors of market knowledge and market commitment, Driscoll (1995) introduced a comprehensive foreign market entry decision framework, which identifies export, contractual and investment as the main foreign market entry modes. It defines that the contractual entry modes include a variety of arrangements such as licensing, franchising, management contracts, turnkey contracts, non-equity joint ventures, and technical know-how or co-production arrangements. The investment entry mode includes acquisitions (purchasing stock in an existing company in an amount sufficient to acquire control), joint venture and start-up investment.

Driscoll (1995) also analyzed the characteristics of export, contractual and investment entry modes from five aspects of control; dissemination risk; resource commitment; flexibility and ownership (shows in the following table 1). Control refers to that the extent of a firm in governs the production process, co-ordinate activities, logistical and marketing and so on. Dissemination risk refers to the extent to which a firm's know-how will be expropriated by a contractual partner. Resource commitment refers to the financial, physical and human resources that firms commit to a host market. Flexibility assesses that whether a firm can change the entry modes quickly and with low cost in the face of evolving circumstances. Ownership refers to the extent of a firm's equity participation in an entry mode.

**Table 2 the characteristic of the foreign entry models**

Entry method	Control	Dissemination Risk	Resource commitment	Flexibility	Ownership
Investments	High	Low	High	Low	High
Contracts	Medium	Med-high	Med-High	Medium	Med-High
Exports	Low	Low	Low	High	Low

Source: Driscoll (1995)

### 2.2.5 The Factors That Influence Entry Mode Choice

In Erramilli & Rao (1993), it is suggested that to conceptualize a firm’s desired level of different mode characteristics without considering its actual entry mode used, the efficacy of mode choice models would be improved. Based on this advice, Driscoll (1995) believe that “a diverse range of situational influences that could bear on a firm’s desire for certain characteristic of mode choice”. Some factors would influence a firm to choose a desired entry mode. He took the later factors as moderating variables. These factors were summarized in table 2.

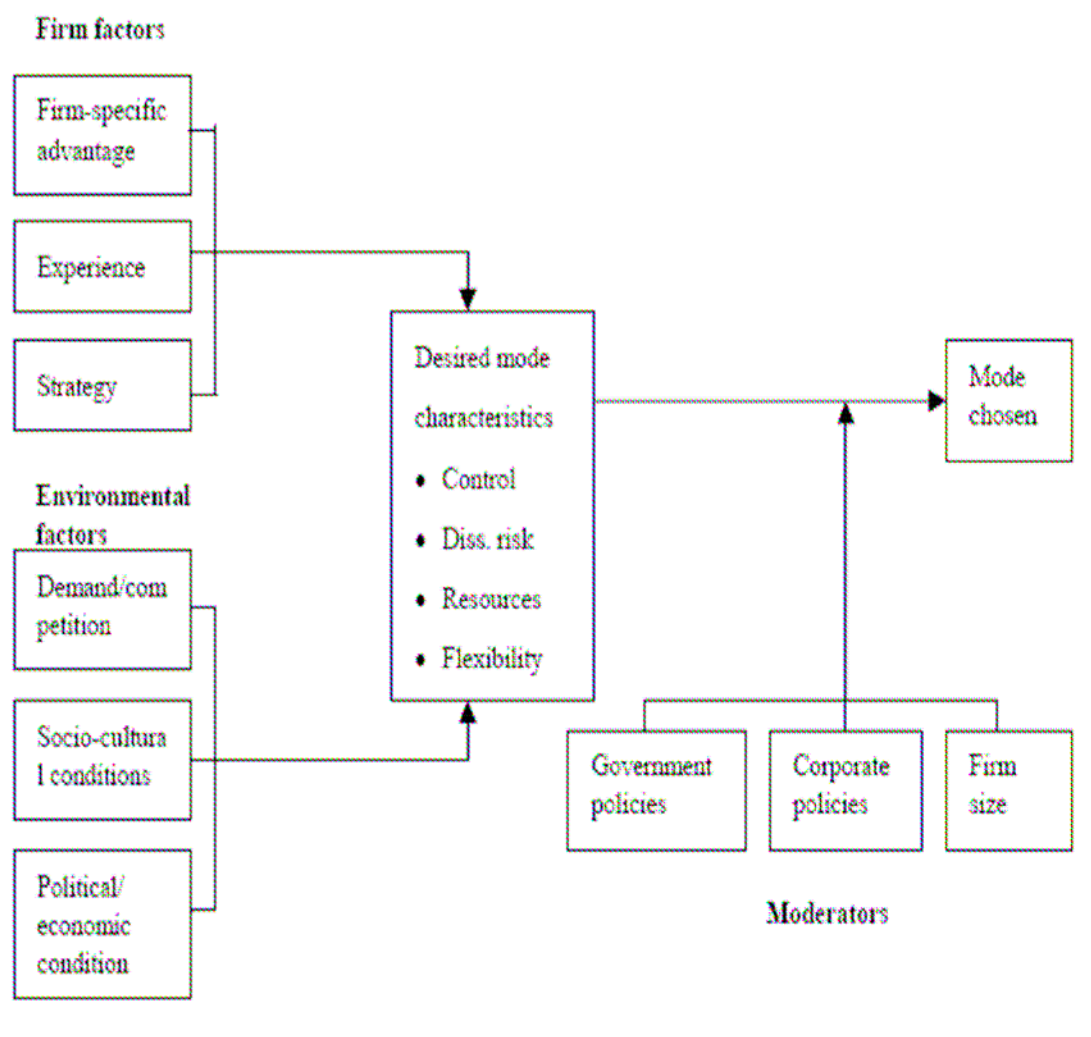
**Table 3 the factors that influence entry mode choice**

Situational influences	Firm factor	Firm-specific advantages
		Experience
		Strategic considerations
	Environmental factors	Demand and competitive conditions
		Political and economic conditions
		Socio-cultural conditions
Moderating variables	Government policies and regulations	
	Corporate policies	
	Firm size	

**Source: Driscoll (1995)**

Different from previous conceptualization of mode choice which just depict a series of situational influence directly affecting mode choice, Driscoll (1995) introduced a dynamic mode choice framework. (as show in figure 5). This model considers the gap between desired model and actual one and takes alternative mode characteristics into account when a firm chooses foreign market entry mode. Driscoll’s study emphasizes that there is no optimal foreign market entry modes under all conditions. Therefore, a firm cannot just consider an institutionalizing mode; it needs to consider the characteristics of modes, the firm factors, environmental factors and other factors when it chooses entry mode. However, the factors that influence the entry mode

choice in Driscoll's framework need to be tested by more empirical research.



**Figure 5 entry mode choice framework**

**Source: Driscill (1995)**

## 2.3 REVIEW OF PREVIOUS RESEARCH

A lot of research has been conducted in the field of international business. And much effort has been made in establishing acceptable approaches of firm in pursuing their internalization objective. This objective of this section is reviewing the existing research in order to have clearer view and access different opinions of subject matter. There are different schools of thought on internationalization of firms. Traditional school laid emphasis on procedural internationalization while the new venture school emphasized rapid entrance to international market.

Luostarinen & Hellman (1993) in their work which was based on a study of small

family firms in Finland proposed a holistic approach of the internationalization process. This model was built on the work by Luostarinen (1979). While the traditional approach of internationalization embraced outward processes, their work fortified the traditional approach with the notion of inward internationalization, i.e., the buying of raw materials, components, technologies, or goods to be resold and outsourcing as a means of gaining internationalization.. Traditional approaches have tended to neglect the importance of inward processes for the firm's internationalization, although at the strategic level, inward and outward-type processes are closely linked. A further distinction was made in this model by identifying co-operative processes as a specific form of outward process.

They further proposed four stages and different paths of internationalization. The first stage is the domestic stage, during which the firm has no international operations whatsoever. In the second, inward stage, foreign activities are limited to technology transfer or importing of raw materials or components. The third, outward stage involves outward or co-operation processes. Outward processes may include activities such as exporting, ownership of a sales or manufacturing subsidiary abroad, subcontracting, contract manufacturing, or licensing. Co-operation processes may entail activities, such as importing of subcontracted components, contract-manufactured goods or licensed products, or importing from a manufacturing subsidiary. In the fourth, co-operation stage, the firm may have a co-operation agreement on any of the following area of activity: manufacturing, purchasing, or research and development.

Dunning's (1988, 1993) in his work expressed different view on how firm internationalize. His view was based on harnessing the opportunities available in the international market. Thus he addresses the aspect of foreign production in multinational enterprises (MNEs). In his view, the focus of MNEs was how to exploit ownership (O) and location (L) advantages by internationalizing (I) markets rather than following a traditional model of internationalization. According to his findings, MNEs will launch production where they can best utilize competitive advantages (due to market imperfections), as defined by the OLI-parameters. The OLI model acquires a dynamic dimension by inclusion of two additional mechanisms, i.e., the other operators in the market (interaction between firms) and the time interval between realization of strategic change and the materialization of its results. The dynamic and incremental nature of the process is explained through a cumulative cycle, in which the results of decision-making on OLI-parameters feed into subsequent decision-making cycles.

Furthermore, Hill, Hwang & Kim's (1990) proposed a strategic approach to internationalization by choice of international entry mode. Their work rested on issues of control, resource commitment, and the diffusion risks of entry. Thus, different entry modes imply a different level of control over the foreign operation (c.f. Anderson & Gatignon 1986). It is essential for firms to have some means of

maintaining control over activities. Control is minimal in the case of licensing, while wholly-owned subsidiaries afford maximum control. They further emphasize that each of entry modes requires different resource commitments which may severely limit the firm's softness due to the sunk costs involved in the different modes. Diffusion of risk, on the other hand, refers to the danger that firm-specific advantages in know-how may be expropriated by a partner, e.g., a licensing or joint venture partner. Especially for firms with technology-based advantages, dissemination risks may present a serious danger. However, they concede that their model is built on *ceteris paribus* assumptions, and thus does not directly reveal reality.

Larimo (1993) applied strategic process to his work. The work was based on the motivating factors that influence the choice of strategy in embarking on foreign direct investment. He argues that factors affecting the FDI behavior of firms include the target country, the path to FDI, the type of investment (e.g., related or unrelated investments), the form of operation (Greenfield operations, acquisitions), the size of the investment, the motivations of the actors, and the ownership arrangements (FDI alone or in co-operation with another firm). Needless to say, the performance of firms will vary depending on these factors. Soerensen & Nedergaard (1993) elaborate on issues present in the international mode of decision-making. They argue that decisions are made, and action is taken, based on interplay of past experience, rational analysis of the firm's current situation, and a dialogue involving all the players and their intuitive assessments. Action, in turn, generates new experience to draw on in future decision-making.

Despite the availability of various research findings, no concrete conclusion has been made on how firm should enter international market. Furthermore, the authors were aware of the existence of other researches and different models propounded by different researchers. While Luostarinen & Hellman (1993) tried to improve on traditional view to build his model, Dunning was pre-occupied with location of production where firm can gain competitive advantage. Hill, Hwang & Kim's (1990) on the other hand laid emphasis on the issue of control, resource commitment, and the diffusion risks of entry. While Larimo study was differentiated by concentrated his study on foreign direct investment. However, this research aimed to study how firm internationalized, by identify the entry strategy adopted and what factor influence such a choices.

# **CHAPTER THREE**

## **RESEARCH METHODOLOGY**

### **3.1 INTRODUCTION**

This chapter deals with process of collecting, organizing and integration of data in order to achieve the project objective. It aims to provide insight on how the research was done, and in what order different task were conducted. The section starts by describing the scientific methodology and research design. Furthermore, a description of the data collection and analysis is presented. The scientific method is defined as the process by which scientists, collectively and overtime, endeavor to construct an accurate( that is, reliable, consistent and non-arbitrary) representation of the world ( Yin 1994) Recognizing that personal and cultural beliefs influence both human perceptions and interpretations of natural phenomena, we conducted the research through standard procedures and criteria to minimize those influences, during the course of data collection, analysis and interpretation.

### **3.2 REAEARCH METHOD**

According to Churchill and Lacobucci (2005), there are three classes of research design: exploratory research, descriptive research and causal research. Exploratory research is on the discovery of ideas and insights; the descriptive research is typically concerned with determining the frequency with which something occurs or the relationship between two variables and typically guided by an initial hypothesis; A causal research design is concerned with determining cause and effect relationships, and these are studied via experiments.

The research is designed to conduct investigation in firms engaged in international Business. This is to specify the information required to address these issues: design the method for collection information, manage and implement the data collection process, analyze the results and communicate the findings and the implications. According to Churchill and lacobucci 2004, Sources of information and research design go hand in hand with clear problem formulation; therefore, data collection methods can only be selected once the purpose of the study has been determined. The core purpose of my study being the identification of the firms' strategy in term of internationalization process and entry approach applied, by identifying the determining factors that influenced such decision. We have executed the study as an description research base on qualitative method so as to provide insights into and understanding of the variables that account for the firm entry strategy success.

### **3.2.1 RESEARCH APPROACH**

This study is based on qualitative method. A qualitative method consists of an understanding and explains the meaning of a social phenomenon with as little disruption of the natural setting as possible. It permits an evaluator to study selected issues in depth and detail (Patton, 1990). Thus, qualitative research reveals and explains behaviors; based on the assumption that they create reality as they interact with social environments. In order to analysis these creations, human beings are the key data sources in qualitative studies and, therefore, fieldwork is a very common means of collecting data (Merriam, 1998).

The phenomenon of firm entrance across border as a part of a company's strategy is certainly manipulated by individuals making various decisions. Explaining this behavior requires an in-depth analysis of major decisions. The qualitative method is most suitable for this purpose, since it allows one to go deeper into each company's entry strategy by collecting primary data. The comparatively small number of companies also gave us the possibility to study each response intensely.

The aim of this research is to analyze the internationalization process of enterprises. It is through studying the successful cases in internationalization of Huawei that we discuss experiences and related theories for enterprises. In this research, Driscoll (1995)'s foreign market entry mode decision framework was taken as a research framework. Six in-depth interviews and each spend half hours on telecommunication were conducted with the old employee in Huawei. Zhang Jing Dong one of the authors worked for Huawei for many years and understands Huawei's internationalization strategies and policies. The research also draws on reviewing existing literature, documentary research of statistic database and publications in the Internet, newspapers, and magazines. Like all the case study, the present study provides readers with an in-depth insight into how a enterprise decides on its foreign market entry mode.

### **3.3 RESEARCH DESIGN**

A research design is the blueprint for the study that guides the collect and analysis data. According to Yin (1994), this blueprint of research deals with at least four problems; what question to study, what are relevant, what data to collect, and how to analysis the results.

Deciding which design will be applied to the research determines what kind of research method and results will be carried out and presented. According to Christensen & Engdahl, 2001, The major parts of all studies are divided in two dimensions: abroad-external and a narrow-deep research. A The abroad-external is based on a broad and external approach is focus on a few variables at many research units. The narrow –deep is focus on deeper study on a few number of research units.



The narrow do not need show a statistically generalized picture of a population  
In my study, only studying one firm' internationalization process, so this research is narrow-deep.

### **3.4 CASE STUDY**

According to Yin 1994, Case studies are appropriate when questions such as 'how' and 'why' are addressed and the goal is to observe a phenomenon within the context of 'real-life'.

This study of purpose is to explore how the firms internationalized? So A case study approach was selected.

Case studies provide the researchers with the opportunity to challenge or confirm models, theories as well as own experiences and knowledge (Gummesson, 1998). According to (Robert k.1989, 23) a case study is an empirical enquiry that investigates the contemporary phenomenon within its real life context when the boundaries between phenomenon and contest are clearly evident, and in which multiple evidences are used. For this study, a case study approach was deemed appropriate. Research the process of internationalization through case studies allowed the researchers to use existing theories, models and own observations as a tool in collecting and analyzing the data. We study existing and relevant cases related to the purpose of the study, especially where we can not get the required information from the respondent or where the respondent is reluctant to divulge sensitive information that can expose them to their competitor. In Huawei's history, the internal information has been stolen by competitor; it has made a crisis and Lawsuits and disputes for Huawei in international arena.

### **3.5 SAMPLE SELECTION**

Based on the object of study, I started search for possible case. The search for a suitable firm began by contacting with my friend who working within international business. Some my friend working in international trade company, they have corporation with a lot of international firms. My friend was contacted and asked to help the author identify which firms can be suitable candidate to participate in the study. The target firm has to fill in these three requirements:

The first, involved identifying a pool of industries commonly cited in the literature as being global. Second was the identification of companies within each industry which had extensive transnational operations. This was emphasized by using Aharoni's (1966) definition of how many foreign subsidiaries constituted a multinational corporation (more than five). The final step involved a post hoc process to verify the originality of the above-mentioned procedure. Respondent firms' operating environments had to have the following global industry characteristics: intense global

competition, high degrees of product standardization on a worldwide basis; existence of global competitors in all key international markets; high degrees of similarity among buyer/customer needs from market to market; concentrated manufacturing in one or very few countries; and centrally managed marketing operations with business culture antecedent.

My friend introduced a possible candidate: Mr. Zhang Jingdong at Huawei. After discussing with him, he agreed to participate in interview on tele-communication with me. The Huawei is a very developed international individual firm and can be filled in my three requirements. Mr. Zhang Jingdong is one of the authors worked for Huawei for many years and understands Huawei's internationalization strategies and policies.

After the typical case had been identified, It was determined to use depth interviews to gather the necessary data. Depth interviews are an excellent means to gather and understanding of the press being researched. So six depth interviews and each one is spent half hour was planned. Interviews are also useful when trying to analyzed topics which are the case for this study.

### **3.6 DATA COLLECTION**

Data can be divided into primary and secondary data. Primary data is collected through observations, interviews and secondary data has been collected and revised (Lewis, 2003). Our primary data was the interview we had while secondary Data was based on information deducted from Annual report, publication and the web.

One of the most important sources of case study information is the interview, which may take several forms. Most commonly, and appropriate for this research, is an open-ended nature, in which it is possible to ask the respondents' opinion about events. In some situations, it even gives the opportunity to ask about the respondent's own insight into certain incidences. One of the reasons why interviews were chosen is because primary data is supported by its strengths. These are (1) targeted- focused directly in real time, and (2) contextual- covering the context of events (Yin, 1994).

One on one interviews were conducted with industry experts of the sampled firms, especially those involved in international marketing operations, to give reliable and representative information of their firms entry strategy. From the above, the purpose of our interview is to achieve the two objectives (1) to assess and (2) for information. This was aimed to generate maximum insights on the subject matter. Therefore we conducted interview with Mr Zhang Jingdong one of the authors worked for Huawei for many years and understands Huawei's internationalization strategies and policies. I have associated six depth interviews on telephone, each interview spent half hour. For the study's purpose, an interview guide was developed to provide the interviewers with the generally the same information is gathered from the interviews. All of questions is opened and deal with my study issues "internationalization process". The

questions were asked in a logical sequence from generic to more specific questions to provide context to the interviewee.

### **3.7 DATA ANALYSIS**

There is distinction between an inductive, deductive and adductive approach. The inductive approach is characterized by empirical data collected and subsequent theory formulation, based on the findings. The researcher is generating new theories aiming to explain the phenomena, due to a lack of existing theories. In a study with a deductive approach, the point of departure is to test an existing theory using a particular hypothesis. By conducting a logical deduction of the findings, the theory is either confirmed or modified in line with the new conclusion (Yin 1994). The adductive approach is a combination of the inductive and deductive approaches. The starting point is the empirical findings, which together with existing theories form the basis for discovering certain hypothetical patterns. The adductive approach is suitable when the researcher is adductive approach represents the most suitable approach for this study. This is decided by the fact that empirical data is combined with the existing theories in order to discover possible hypothetical patterns regarding the internationalization and entry strategy of enterprise multinationals. Moreover, this study does not seek to elaborate on a theory or to testing one. The main focus is to explore and explain companies' market entry strategy adapted. In the study, I try to use existing theories and modes to explain phenomenon, it is meaning test an existing theory.

### **3.8 RALIABILITY & VALIDITY**

The method used to conduct a study arguably influences the results of the study. Therefore the method used needs to be evaluated in order to assess the reliability of study itself.

Reliability refers to the degree at which the findings and results achieved can be reproduced by another researcher, at a different time. This, in turn presents two aspects: firstly, the use of same methods; and secondly a time dimension. Assuming different views upon the conduct of research in academia, a difference in the use of method is acceptable; imposing only desirability of the consistence in the empirical data C. Person and D.Slonovschi (2003). However, when considering the time dimension, several conclusions may be affected due to development of countries and the market.

Reliability is dependent on three elements (Patton, 1990)

- 1, Rigorous techniques and methods for gathering high quality data that is carefully analyzed, with attention to issues of validity, reliability, and triangulation;

2, The credibility of the researcher, which is dependent on training, experience, track record, status, and the presentation of self; and

3, Philosophical belief in the phenomenological paradigm, that is, a fundamental appreciation of naturalistic inquiry, qualitative methods, inductive analysis, and holistic thinking.

Validity concerns the establishment of correct operational measures for the concepts being studied. In other words, construct validity focuses on how well a study has measured the changing factors of analysis. Using multiple sources of evidence and establishing chains of evidence while collecting the data can tackle this. Furthermore, researchers could improve construct validity by using multiple sources or data triangulation (Yin, 1994).

Considering that this research is focused on analyzing the way of companies internationalize and adapt strategy in entry foreign markets, the internationalization theory, which includes gradual expansion and the importance of networks, is used as a tool for analysis. The authors of this study acknowledge the existence of other theories. However, the one being used is the most acceptable and relevant to the study. Moreover, the utilized theories cover and explain the in-depth process of internationalization applicable for the case companies. In this study, I believe that the results themselves can be replicated and reused by others, the methods will ramian deal with three elements of reliability ( Patton, 1990)

# **CHAPTER FOUR**

## **EMPIRICAL FINDINGS**

### **4.1 Introduction**

The chapter highlighted the findings from the interview conducted with Mr. Zhang Jingdong of Huawei respectively. The interviewees were asked questions concerning the firm experience in the international market, how the entry strategy employed and new market developed. However, due to nature of the interview, which was unstructured in nature, the findings were presented in a re.-organized but raw format. Furthermore, relevant information that were extracted from firm publications and their Website, were also presented.

### **4.2 Huawei in Brief**

Huawei is a leading global provider of equipment and systems that contribute to quality enhancement and cost efficiency within telecommunication. After two decades' development, many Chinese technology enterprises stride their first step in internationalization. Among them, the Huawei Technologies P/L is a typical representative. Huawei is a private hi-technology company. It is a leading telecommunication equipment manufacturer in China. In 2005, the contract sales of Huawei are USD8.2 billion, of which, nearly 58% (USD4.8 billion) comes from foreign markets. Compared with 1999, only less than 4% of the total sales of Huawei came from foreign markets. Indeed, Huawei has achieved great success in internationalization in the past few years.

### **4.3 The Findings from Huawei**

The empirical finding is based on the response given by Mr Zhang Jingdong, the old employee worked for Huawei for many years and understands Huawei's internationalization strategies and policies. He was asked various questions ranging from the firm internationalization history, how the firm enters the market and the influencing factors.

#### **4.3.1 The Profile of Huawei and Its Growth in the International Market**

Huawei Technologies P/L was founded in 1988. It is a high technology private company that provides customized network solutions for telecom carriers around the world, specializing in the research and technology development. It invests at least 10% of annual sale volume in new product research and development. Huawei's contracted sales in 2005 reached USD 8.2 billion, of which 58% came from

international markets. Overseas sales have been doubling each year for the past five consecutive years. At the end of 2006, Huawei has over 61,000 employees, of whom 48% are dedicated to R&D. Huawei has provided products and service for over 300 telecom carriers around the world. It has achieved outstanding growth over 17 years since its foundation. Huawei has won the leading position in the global market in the areas of 3G, next generation network (NGN), switching, xDSL, optical network, and data communications. Table 3 shows the market position of Huawei in the global market.

**Table 4 The position of Huawei in the global market**

	Global Rank in 2003	Share in Global Market
Optical network	4 (up to position 3 in 2004)	9.1%
DSL	2	17.7%
NGN	2 (up to position 1 in 2004)	13%
Switching Network	1	35%

Source: (Dittberner 2005; Gartner 2003; Huawei 2003, 2005b, 2005a)

The first step of internationalization in Huawei is providing customized design of ‘number portability service’ for Hutchison Telecoms, Hong Kong in 1996. Huawei spent only 3 months on helping Hutchison to realize the service instead of quotation of at least 6 months set by European telecommunication manufacturers. Furthermore, the price is only half of that from the other competitors (Li, C. & Cui 2004)

After that, Huawei made a decision to enter international market. Russia and Southern America market are first selected. Huawei entered Russian market in 1996. It set up a joint venture of Beto-Huawei with Russian Beto Konzern and Russia Telecom to develop Russian market in 1997. However, Huawei did not get any order within four years. After getting the first order in Russia in 2000, the business of Huawei in Russian market grows up quickly. In 2003, Huawei got the sale volumn of more than USD 0.3 billion in Russian and the surrounding markets. In the market of broadband products, Huawei occupied more than 50% of the market. Up till now, Huawei has become the Chinese company with the biggest investment in Russia. However, the performance in Southern America is not ideal, the sales in this area were less than USD 0.1 billion up till 2003 (Wu 2004).

After 2000, Huawei extended its target markets to other countries, including Southern Asia (Thailand, Singapore, and Malaysia), Middle East and Africa. Since 2001, the products of Huawei have been sold in West Europe market through the local famous agents. These countries include German, France, Spain and UK. In 2001, Huawei's products start to be sold in West Europe and North America

**Figure 6 and figure 7 below show Huawei's annual overseas sales volume and its overseas sales percentage from 1999 to 2005.**

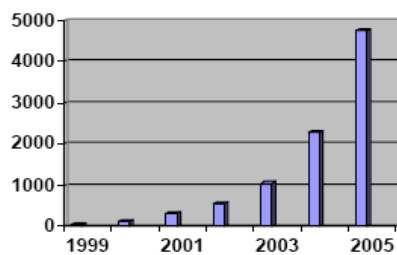


Figure 2 Huawei's annual overseas sales volume (USD mil.)

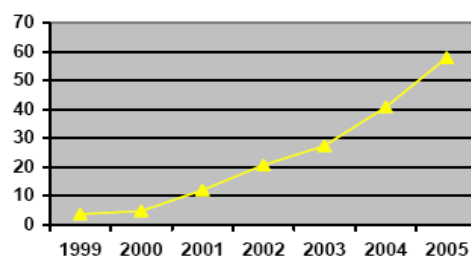


Figure 3 Huawei's overseas sales percentage (%)

Source: website of Huawei, ([www.huawei.com](http://www.huawei.com))

### 4.3.2 Huawei History of Business Process

Huawei was Founded in 1988 in Shenzhen of China. 1989, develop and research PBX independently. 1994 launched C & C08 digital program-controlled switches. 1995, established the Department of Intellectual Property Rights and to set up R & D center in Beijing, and in 2003 adopted the CMM4-level certification.

1996, launched Integrated Services Access and SDH optical network equipment, signed a contract with Hutchison Whampoa in Hong Kong to provide fixed network solutions and set up R & D center in Shanghai and in 2004 adopted the CMM5-level certification. From 1997 onwards, IBM, Towers Perrin, The Hay Group, PricewaterhouseCoppers (PWC) and the Fraunhofer-Gesellschaft (FhG) as Huawei changes in the process, employees share option scheme, human resources management, financial management and quality control of consultants. And corporate with these major multinational consulting firms, so that Huawei can understand the industry's latest developments. In 1997, launched GSM equipment and with Texas Instruments, Motorola, IBM, Intel, Agere Systems, Sun Microsystems, Altera, Qualcomm, Infineon and Microsoft to set up a joint research and development laboratories. As of June 2005, Huawei total of 10 joint research and development laboratories. In 1998, The Digital Cellular-server control switch was a patent. And set up R & D center in Nanjing, and in June 2003 adopted the CMM4-level certification. In 1999, Huawei being China's National Mobile Intelligent Network CAMEL Phase II

of the major suppliers, the network was the world's largest and most advanced intelligent network.

In same time, Huawei established of research and development center in Bangalore, and in 2001 adopted the CMM4-level certification in 2003 through the CMM5-level test. In 2000, sales contracts over 2.65 billion U.S. dollars, of which overseas sales of more than 100 million U.S. dollars. Silicon Valley and Dallas in the United States set up R & D center. In 2001 10 Gbps SDH system began to used in Germany for the Berlin business. According to the statistics RHK, Huawei's optical products stable market share of the Asia-Pacific region the first one. Huawei sold division Avansys for 750 million dollars to Emerson. Huawei become a member of the International Telecommunication Union. Although the 2001 to 2002, the global telecommunications infrastructure investment dropped by 50 percent, Huawei's international sales or an increase of 68 percent, from 328 million U.S. dollars up to 552 million U.S. dollars between 2001 and 2002. Huawei adopted the UL the TL9000 quality management system certification. China Mobile for the deployment of the world's first mobile mode WLAN.

In 2003, Cisco Systems Cisco accused Huawei for some patents conflict, but, Cisco eventually withdrew the complaint, the two sides to resolve all the patent disputes, and to recognize Huawei no violations. In the rest of the world has deployed 100 million C & C08 port, and created a record industry. Make Corporation with 3Com for joint ventures and produce enterprise data networking equipment. Huawei adopted the DNV (DET NORSE VERITAS) of the ISO 14001 certification. In December for the United Arab Emirates telecommunications company (Etisalat) to provide a nationwide coverage of UMTS services, strengthened the Etisalat technology leadership position, while helping to become the Middle East and the Arab world in the first to introduce third-generation network operators. In 2004, established joint ventures with Siemens and developing TD-SCDMA mobile communication technology for the Chinese market. Huawei won China Telecom's national backbone network optimization contract. The project goal is to optimize the China Telecom in Guangdong Province, the 163 backbone network. Under the contract, Huawei's high-end router NE5000 TSR procurement contract was 100% of the market share, successfully entered the national backbone network of the two super nodes. At the same time, Huawei's Gbit exchange router NE80 won 75 percent of the project's market share. Huawei signed a contract with China Telecom, the construction of over 1,200 10,000 ADSL lines, to further consolidate the China Telecom Huawei as the greatest strategic partnership status. By Frost & Sullivan was awarded the "2004 Asia-Pacific region the most credible enterprises" and "2004 Asia-Pacific broadband equipment suppliers," the two awards. Frost & Sullivan is a global market research agency, to provide emerging high-tech industries and market information and intelligence. Huawei got debts from the 29 banks to provide 360 million dollars loan for the implementation of the company's global development plan in three years. Huawei won the Dutch operator Telfort to provide UMTS network equipment contract. In 2005, Huawei and Vodafone signed a framework agreement for global



procurement, to become Vodafone's global supply chain optimization of communications equipment providers. Huawei and Telefónica signed a strategic cooperation agreement, Telefónica selected Huawei as its 3G broadband in the field of business innovation of the strategic cooperative partnership, the two sides will jointly develop markets in Latin America. Huawei the third times awarded Frost & Sullivan Asia Pacific Technology of the podium, was in 2005 the Asia-Pacific region, "the annual wireless equipment suppliers", "the NGN equipment suppliers" and "the optical network provider" Three awards. Huawei University is established, the University serve to client-oriented, the company's management and staff to carry out comprehensive system of technology, management, and cultural training. Huawei has become British Telecom (BT) 21 CN network's most preferred providers, Huawei began to supply equipments for BT21CN multi-service network to provide network access (MSAN) components and transmission. Huawei acquired the production and marketing of mobile phone license in China. In 2005, Huawei want to acquire 3com, but failed, because the telecommunication equipments are used in army filed. In 2006, may 8<sup>th</sup>, Huawei launched a new corporate logo. The new logo reflects Huawei focus: innovation, sound, the core values of harmony. In the 2006, ITU TELECOM WORLD exhibition in Hong Kong, Huawei introduced the All IP network-based FMC solutions. Huawei's Mobile Softswitch break through 100 million users, As a global mobile softswitch market leader, Huawei's Mobile Softswitch to the first volume in the world. Vodafone Spain selected Huawei construct of its WCDMA / HSDPA radio access network. Motorola and Huawei UMTS joint R & D center in Shanghai have been set up. The cooperation is aimed at providing customers around the world more powerful and comprehensive UMTS product solutions and high-speed packet access programme (HSPA). EMobile selected Huawei to deploy Japan's first IP-based HSDPA radio access network. Huawei and 3 COM completed H3C against the bid. U.S. mobile operator Leap choose Huawei building 3 G network, the CDMA 3G network will cover California, Idaho, Nevada, and other important areas.

**Table 8 show Huawei's alliances in the telecommunication industry**

Alignment partners	Cooperation methods	Cooperation areas or vision	Commencement
Marconi	To cooperate on Development and marketing.	Collaborating in strategic markets. Marconi provides Huawei's carrier-class data products to key customers in Europe. Huawei helps Marconi to sell its products in China.	January, 2005

Siemens	joint venture: TD Tech Ltd	To develop products based on China's home-grown 3G wireless standard TD-SCDM, including development, manufacture, marketing and services.	February, 2004
3Com	Joint venture:Huawei-3COM	International markets of Data Communication	March, 2003
Matsushita (Panasonic), NEC	Joint-venture: COSMOBIC Technology Co., Ltd	To expand 3G mobile handset businesses.	June, 2002
Motorola	OEM mode	Mobile network infrastructure.	2002

Source: (Li, C. & Cui 2004)

### 4.3.3 Huawei's Global Operations

Huawei implementation of the strategic management of globalization. their products and solutions have been used in more than 100 countries and regions, global services more than 1 billion users. The international market has become a major source of Huawei's sales. In 2007, 72 percent of sales come from overseas markets.

After 10 years of efforts to expand, Huawei already grown into a global company. At present, they set up overseas in 20 of the region, more than 100 branches, so that they can be closer to customers, listen to customer needs and respond quickly.

Huawei in the United States, India, Sweden, Russia and China, and other places set up 12 research institutes, R & D center in each of the different research focus and direction. Using the global synchronization of the international research system to gather the world's technology, experience and conduct product research and development to remain leading the world's technology.

Huawei also set up 28 overseas regional training centre for employee learning the local culture, and vigorously promote the localization of staff. Within the scope of the localization of global operations, not only strengthen their understanding of the local market, but also made contributions to the socio and economic development for the host countries and regions.

#### **4.4 The Resume of Huawei's Founder: Ren Zhengfei**

Huawei founded in 1988 in Shenzhen by Ren Zhengfei. Ren Zhengfei, president of Shenzhen Huawei Technologies Co., Ltd.. He was born in 1944, ranking the head of seven brothers and sisters. 1978, demobilized troops and has been the People's Liberation Army officers. In 1982, He demobilized troops from Sichuan, and went to Shenzhen, worked in southern oil firm for two years. Subsequently established a electronics company. In 1988, with 2,500\$ registered capital of established Shenzhen Huawei Technologies Co., Ltd., the main business is telecommunications equipment. 1994, participated in the international telecommunications exhibition of the Asia-Pacific region, the great success. In 1996, Ren Zhengfei began to cooperate with the Mainland manufacturers, and take the way of common development. In 2000, Ren Zhengfei has been ranked the 50 Regal China first three by the United States, "Forbes" magazine. Personal property was estimated at 500 million U.S. dollars. In 2003, Ren Zhengfei has been selected "2003 China IT top 10 people" by user. 2004, was ranked on "the future international entrepreneurs Star" list. 2004, was selected" China's economic Person of the Year candidate" by CCTV.

# **CHAPTER FIVE**

## **ANALYSIS OF THE FINDING**

### **5.1 INTRODUCTION**

This case study analyses and discusses the internationalization process of Huawei, a leading telecommunication equipment manufacturer and household electrical appliances manufacturer in China. Our research aims to explore the special features of the internationalization of firms through one case study and to identify the factors that affect firms' international entry mode decision. In this paper, several foreign market entry modes were discussed. Issues of why and how to take into account the factors of industrial characteristics, environmental factors, firm factors, and moderators for internationalization and how to employ different entry modes in different host markets are discussed and illustrated based on this case study. It is found that industrial characteristics and home country's technological reputation affect to a great extent the internationalization path of the firm studied. The research also shows that in terms of enterprises' internationalization.

### **5.2 The Huawei Internationalization Process from an entrepreneurial perspective**

According to Svante Anderson (2000), the enterprise's internationalization process also is influenced by entrepreneur. Svante Anderson definite three types of entrepreneurs; the first is technical entrepreneurs, the technical entrepreneurs mainly focus on technology. The most important is products and production development. Internationalization is not they main interest but the new product can be known through the international network a request from abroad can lead to exports or licensing agreement. These international activities do not acquire fully owned subsidiaries and the industry structure for markets with new products is mainly emergent or growing. The markets are entered depends on which countries are making the inquiries. The second is marketing entrepreneurs; this marketing entrepreneur has found a need in the market and has ideas of how to fill this demand. They considered the market channels and brands are more important than the products. He is proactive in internationalization process and willing to develop new international ventures and choose establishment model, such as Greenfield establishment which need a lot of resources. These establishment models make it possible to penetrate markets more quickly. Marketing choose are depending on the personal preference and network is important. The third is the structure entrepreneur, the structure entrepreneur acts in mature industries and his strategy is implemented at cooperate level which means his not direct intervene in operational matters.. He is trying to restructure the company and industry by combing organizations. From this perspective, the internationalization

is not separate but a consequence of the overall strategy. He prefers acquisition and mergers to reduce the capacity in the industry. Marketing chosen in accordance with the competitive acquisition and markets without attractive acquisition or merger are not entered.

As my empirical data, we knew that Ren Zhengfei is president and founder of Huawei. So Ren Zhengfei can be definite an entrepreneurs of Huawei. In history of Huawei and Resume of Ren Zhengfei, We can find that Internationalization process and entry strategy have been changed between 1988--2006. Because the roles of Ren Zhengfei has been changed from a technical entrepreneurs to marketing entrepreneurs and restructure entrepreneurs. We can see that Ren Zhengfei has a technical background if we can read his resume carefully. In 1982, Ren Zhengfei worked in an oil company and running a electronics company in Shen Zhen of China. The electronics belong to high-tech field. The high-tech knowledge is required. The electronics company brought the first experience and technical knowledge to him. So Ren Zhengfei is a technical entrepreneur when he established Huawei in 1988. He invest on develop new technical and set up R&D research center in Beijing. He paid more attention to their production compare with brand. He made corporation with some famous company in foreigner market which have a good brand. Huawei offer low price and high quality production to other company and gained brand advantage from other company to gain supply contracts. The Huawei's internationalization process is depended on which markets inquire for their production. For example, Huawei set up a joint venture of Beto-Huawei with Russian Beto Konzern and Russia Telecom to develop Russian market in 1997. After 4 years, they got first supplier contract.

But after 2000, Ren Zhengfei is gained much marketing experience and knowledge through participated some marketing activities such as some exhibitions and their new market developed. He began to build own school and training his employees. He began to pay attention to local culture; he changed his pull internationalization strategy to push internationalization. He paid more attention to build their brand. He wants to gain advantage through brand and production in international market. He still remain invest on R&D product. Whatever, he has chosen a positive strategy to push internationalization. By the way, Huawei gathered big financial source and gained financial knowledge through their business extended. For example, Huawei got support from 29 banks and got big debts. In 2007, Huawei planned acquire the Americans firm: 3com, but failed for some security reasons. Because of telecommunication equipments are belonged to army field, the laws are so stringent. Whatever, Huawei already has ability to restructure the internationalization.

## **5.3 KNOWLEDGE AND OPERATION ABOUT FOREIGN MARKETS**

### **5.3.1 Markets commitments**

The firm's opportunities and risk is assumed to be affected by market commitments (Johanson and Vahlne, 1977). They also propagated the idea that the amount of resources committed is closed to the size of the investments in the market. Using this concept in a broad sense includes investment in marketing, organization, personnel and other areas. (Johanson and Vahlne, 1977) In my case, Mr Zhang Jingdong discussed that Huawei's market commitment different from country to country because the distance does not influence their marketing. They make big investment on R&D product and trained employee to avoid conflict culture and reduce cost of learning new culture. 28 trained centers have been established in world field. They working deal with "location", so most of employees come from location, it reduced resource commitment.

### **5.3.2 Market Knowledge**

Market knowledge means information about markets and operations in those markets. Johanson and Vahlne (1997) believe that the lack of knowledge is an important barrier to decision making connected with the development of international operations. In my case of Huawei, they prefer to corporate with some famous company such as Microsoft and Siemens to make joint venture in their domestic market. They can reduce risk for unknown market. Huawei can learn experience from partners. Usually, Huawei not hurry up for win a business chance, they like to share profits and technical with partner to change experience from partners. According to Mr Zhang Jingdong, Huawei has a worse career that is Cisco accused Huawei stole their intelligence in USA. The Huawei's brand is damaged even Cisco eventually withdrew the complaint. This is exposing Huawei a new player in USA market. They lack of experience when they face to some strong competitors. So now they hired some famous consulting company supply professional service to them.

## **5.4 Resources commitment in foreign market**

### **5.4.1 Current Activities**

Johanson and Vahlne (1977) assume that the more complicated and differentiated the product is, the larger will be the total commitment as a consequence of the current activities. When integrating experience into the firm in the internationalization process, that it is essential to use both the firms experience and the market experience for the performance of marketing activities Johanson and Vahlne (1997). In my case of Huawei, they prepared three ways to avoid take risk for lacking of

experience when they enter to a new market. First is corporate with local company, share profit and new technical with them, but also share their experience and their brand. So as according to Mr. Zhang Jingdong, Huawei has invested 12 R&D center and made corporation with a lot of companies. Second; hiring local employee and training employee, that make Huawei launch in new market and gather experience very fast. Third, they hired professional consulting company to supply consulting service to them. The consulting company can guild Huawei to entry new market faster. The Huawei can gain the market knowledge and current activities are been made easily with low risk.

### **5.4.2 Commitment Decision**

Decisions to commit resources to foreign operations are the second change aspect. Johanson and Vahlne (1977) assume that such decisions depend on what decision alternatives are raised and how they are chosen.

The difference between an economic effect and an uncertainty effect of each additional commitment are: the economy economic effect refers to increases in the scale of operations on the market and the uncertainty effect is connected to market uncertainty. It can also be said that additional commitment will be made in small steps unless the firm has very large resources, market conditions are stable and homogenous, or the firm has a lot of experience from other markets with similar conditions. (Johanson and Vahlne, 1977). In my case of Huawei, they going to corporate with some local company for R&D, and through competition to gain supply contract with low price, They will going to enter the new market and invest on own sales subsidiary. They hired local employee who have experience, Huawei believes that first contract is most difficult, after first contract, it will be took easy. Huawei have enough patient to waiting for first customer. For example, Huawei spent 4 years to wait for the first contract in Russian market. But After getting the first order in Russia in 2000, the business of Huawei in Russian market grows up quickly. In 2003, Huawei got the sale volumn of more than USD 0.3 billion in Russian and the surrounding markets. In the market of broadband products, Huawei occupied more than 50% of the market. Up till now, Huawei has become the Chinese company with the biggest investment in Russia.

### **5.5 Entry Mode Decision of Huawei**

It is obvious that the internationalization process of Huawei is successful up till now. This success depends on the appropriate market entry mode choice and market strategies employed. Huawei applied different market entry mode in different markets (different geographical markets and different products markets). Indeed, Huawei has achieved great success in internationalization in the past few years. According to the Uppsala Internationalization Model, there are four different modes of entering an

international market: (i) No regular export activities → (ii) Export via independent representatives (agents) → (iii) Establishment of overseas sales subsidiary → (iv) Overseas production/manufacturing units. These four modes follow a sequence from low to higher degrees of internationalization (Andersen 1993). Bradley (1995) also believes that foreign market entry strategies usually accord with the sequential stages of Exporting, Competitive alliances, Acquisition /foreign direct investment. However, after analyzing the foreign market entry strategies of Huawei, we can find these stages are not followed strictly.

### **5.5.1 Joint Venture in Russian Market**

In 1996, as a breakthrough, Huawei began its international business at Russia. It set up a joint venture of Beto-Huawei with Russian Beto Konzern and Russia Telecom to develop Russian market in 1997. As a new player in international market, Huawei's development in Russian market is very hard at the first stage. Huawei spent four years on waiting and studying before they got the first order. At the initial stage of internationalization, Huawei's market selection strategy is targeting the markets that have weak telecommunication infrastructure but have great developing potentiality. Based on the features of telecommunication products, the host market's social and cultural conditions were considered. First, because of the network effect (Katz & Shapiro 1994) and telecommunication products related to information security, Huawei first chose those host markets which have good relationship with home country. Then, based on its own advantages of technological research and development (R&D), Huawei chose the joint venture as the first foreign market modes.

### **5.5.2 Export Entry Mode in South America, Asia and Africa**

In the first stage of Huawei's internationalization, South America is also selected as a target market. However, Huawei employs export method as the entry mode. The influence factors are the issues of geographical distance and local market conditions. From 2000 onwards, Huawei started to enter Asia, Mid-east and North Africa market, in this area, where Huawei also use export method to entry this market. Huawei sent out many of sales and service engineers from home country to setup branches and service centers in these countries. The selection is based upon the characteristic of export entry mode: High flexibility, low resource commitment and low dissemination risk.

### **5.5.3 Contractual Entry Modes in North America, West Europe and Other Countries**

After 2001, Huawei's products start to be sold in West Europe and North America. In these developed countries, Huawei applied a variety of contractual modes to entry



these market. These methods include franchising, co-research, co-production (OEM) and Co-sales (help each other to sale products in each own markets). For example, in European market, Huawei co-operate with Marconi in product development and marketing. Marconi helps Huawei to sell products in Europe using their channels. At the same time, Huawei helps selling Marconi's product in China and Asia markets. Early to 2002, Huawei has cooperated with Motorola in Mobile network infrastructure area using the OEM method. To develop the market of data communication in North American and other international markets, Huawei set up joint venture: Huawei-3Com with 3com, the main player in data communication market. In this method, Huawei takes the advantage of R&D ability and the 3Com's international market resource.

## **5.6 Network and Relationships Importance for Huawei**

Johanson and Mattsson, (1988) describe the internationalization of industrial firms according to the network approach, which describe markets as networks of relationships between firms. The basic assumption of the network approach is that the individual firm is dependent on the resources controlled by other firms. (Johanson and Mattsson, 1998). In my case of Huawei, According to Mr. Zhang Jingdong Huawei never contract with agencies, because Huawei's strategy is developing ultimately customer. Because attend the network of a chain that meaning information will not flow and knowledge will not be gained. In 1996, several Chinese manufactures joined the supply chain of Huawei. But Huawei controlled hold of the chain, reached the first hand information from customers. Huawei permit that other Chinese telecommunication equipment manufactures attend network and share the contract if Huawei gained contract from customers. But Huawei must be controlled customer information and market information by themselves.

## **5.7 The Factors That Influence the Internationalization**

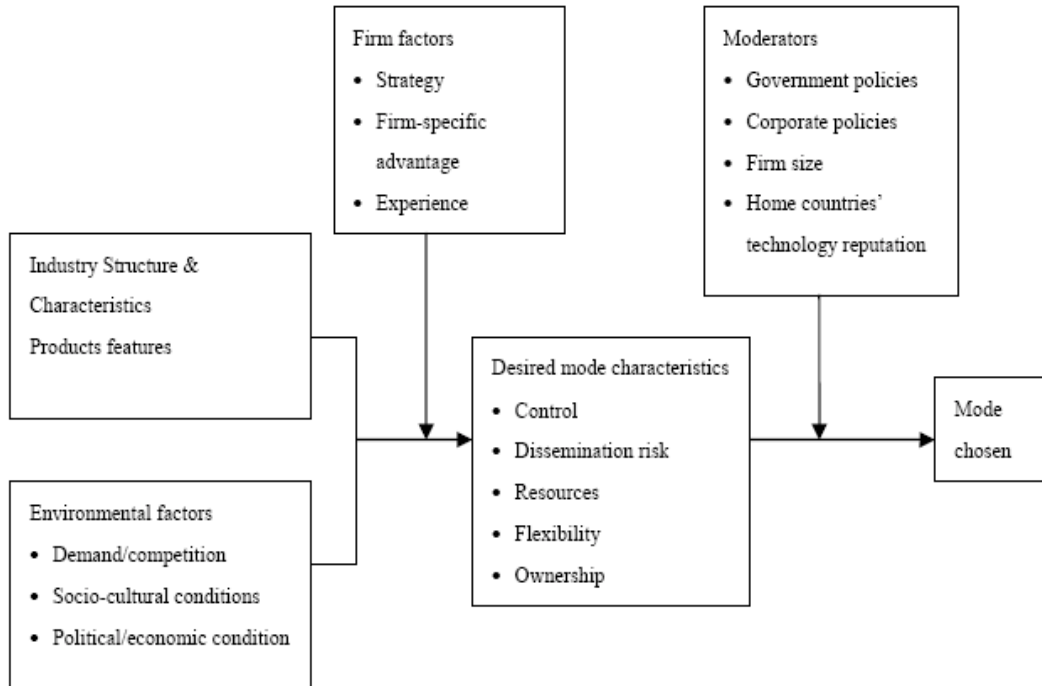
### **Process of Huawei**

According to Driscall's mode choice framework, firm factors and environmental factors are the situational influences that affect the international entry mode choice. The firm factors include firm-specific advantage, experience and strategy. The environment factors include Demand/competition, Socio-cultural conditions and Political/economic conditions. Then variables moderators, such as host/home government policies, corporate policies and firm size, will affect the actual mode choice. The above analysis shows that the internationalization process of Huawei is to some extent consistent with the Driscall's mode choice framework. On the other hand, Huawei's internationalization also presents some special characteristics of hi-tech

firms.

First, industry feature is a key factor that affects Huawei's internationalization path. This is attributed to the special characteristics of information and communication technology (ICT) products. ICT products follow the network effects (Katz & Shapiro 1994), which means that the products have no or little value in isolation, but generate value when it is combined with other products. The more users use them, the more value the products have. The network effect responding to the market competition is that there are many balance points (the zero point and others balanced point). Therefore, the ICT firms first need to break the zero balanced point when they enter foreign markets. Huawei had taken a high commission policy to encourage the first sales in new markets. Analyzing Huawei's internationalization process, we can find that the industry feature is the most important factor that affects Huawei's entry mode decision. The opinion of influence from industry structure & characteristics is also supported by DuBois, Toyne & Oliff 's (1993) research into international strategies in four technology industries. Huawei's foreign market entry mode is based on the host market environment and industry features. The best mode is the one that can help a company to break the first market-balanced point. Therefore, Huawei uses different entry method in different market and for different products. As shown in the previous examples, Huawei uses the join-venture method to enter Russian market; uses export method to enter Southern American, Africa and uses contractual method and joint venture to enter Europe and North American. From this point of view, Huawei's entry mode selection is not primarily based on the firm factors. By contrast, it depends more on the industry factors/ products and the host market environmental factors.

Second, our interviews conducted for this study show that the second influential factor in Huawei's internationalization comes from the fact that China, the home country of Huawei, is a developing country and the developing countries' hi-technology products will face extra barriers when they enter international market. Kim, Kim & Lee (2002) view the GNP gap of home country's and host country's into account as an influential factor when they study the Korean system integration (SI) firms' internationalization. However, they did not provide any significant evidence that proves the GNP gap would influence the technology companies' internationalization. They infer that "for companies from advancing countries, economic and technological condition in host countries would be more important than the cultural distance alone when deciding the resource commitment for market entry". The case of Huawei indicates that a developing country's hi-tech enterprises face additional problems and the enterprises need to demonstrate the total technological level of home country time and time. Through the case study of Huawei's internationalization, we believe that the following entry mode choice framework (figure 4), based on Deriscoll's (1995) international entry mode choice framework, would be more suitable for hi-tech enterprises:



**Figure 6: Foreign markets entry mode framework for hi-tech firms**  
**Source: Driscoll (1995)**

Compared with Driscoll's foreign market entry mode choice framework, the above proposed framework for hi-tech enterprises emphasizes the factors of industry structure and characteristics. Firm factors might play a less important role for hi-tech enterprises to decide on foreign market entry mode than that in traditional manufactures.

## CONCLUSION

The research problem of this project is to explain how Chinese firm internationalize, in term of entry strategy and the influencing factors. After review of existing literature and analyzed the findings in relation to Uppsala model and Driscoll's (1995) foreign market entry modes choice framework as a guiding tool, we come to the following conclusions.

The purpose of this study is to understand how a firm internationalized and what is the factors influenced firm's internationalization process and entry strategy selected. Through this study, I make clear answers for my question. Internationalization process also influenced by entrepreneur; industry structure; environment factors... I also learned through case study that firm's internationalization process and entry strategy does not flow with stages of UPPSALA mode, because it is influenced by industry structure and environment factors.

On the basis of the findings, given the high cost of acquiring companies and research, Huawei has adopted strategic alliance and joint venture in entering market lately after dropping the strategy of winning concession; building owns subsidiary which was crossly adopted before China entered WTO. Strategic Alliance and joint venture has offered Huawei more targeted and cost effective means of acquiring or access market and another company's capacity. This changes in strategy was bonded by their vision to be a pace setter in the technology development in telecommunication industry. Huawei's strategic alliance comprised wide varieties of collaborative relationship, which included joint research, technology- sharing arrangement, shared manufacturing, joint marketing and/or distributional arrangement with Motorola and Siemens, just to mention a few. This entering strategy has positioned Huawei in becoming a market leader globally. In conclusion, Huawei successful application of these strategies was hinged on it sizes and resources at his disposal against any competition it never met.

However, the mere fact that Huawei entering strategies are functioning well, it is not enough to conclude that the present strategy should be generalized. The world of business is dynamic and the role of entry strategy is to assist the firm to adopt to changes in market and competitive conditions. Hence, for Huawei, the challenge is to devise new strategies that can enable the firms to perform better than it would, when the firms cannot simply sitick to its present strategy, which may now lead to new sustainable advantage.

### 6.1 FURTHER RESEARCH

The scope of the study is limited to entry strategy with factors that influence the choice. However, it is recommended that further research should be carried out to

fortify existing knowledge on the subject matter:

- 1) A more comprehensive research is needed that will involve more sample space. The research was by the fact that only one sample firms were studied.
- 2) Similar research should be carried out in other countries to identify the firm's entry strategy, trends and patterns of internationalization. This is to identify the similarity and difference which may lead to new insights in the international business management and strategies.
- 3) A comprehensive study of firm strategies in international market is highly recommended.
- 4) An in-depth study of entry strategy approach of firm in service industry is highly recommended.
- 5) It is our submission that, study of firm's internationalization should be less focus on entry strategy. The role of resources and capacities in building competitive advantage as strengths for firm operating in international market should be given further priority.
- 6) A more comprehensive research is needed that will involve more types of enterprise. This study only researched the individual firms, in China, most of large enterprise are public enterprise.
- 7) More new modes need contribution to explain internationalization in difference social conditions. Now, most of modes only can explain internationalization in free market of west states.

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## **INTERVIEWEES**

**(1) Mr. Zhang Jingdong one of the authors worked for Huawei for many years and understands Huawei's internationalization strategies and policies.**

## **APPENDIX: INTERVIEW GUIDE**

**Who are the founders of the Huawei?**

**And who is him? Could you tell me some information about founder to me?**

**What year was Huawei established?**

**Where was Huawei established?**

**What are products you sell? What are the different ranges of products?**

**What is the current turnover and export volume?**

**How many employees does your company currently have?**

**Is your company doing business abroad?**

**On which markets is your company present?**

**How many employees in your company deal with the international department?**

**When is Huawei planning to enter foreigner market?**

**When is Huawei began to extending business to abroad?**

**What is Huawei's first international market?**

**How and why choose it be Huawei's first international market?**

**How did you get the knowledge/operation about market?**

**How to choose entry strategy enter new international market?**

**How many international markets dose Huawei entered now?**

**Why Huawei internationalized so fast?**

**What is problem has suffered when Huawei entered the new market?**

**How to solve it?**

**How was Huawei develop the new market?**

**How many training centers have you established?**

**How many R&D center have you established?**

**Does Huawei attend network with other company?**

**What is the new challenge for Huawei internationalization now?**

**How many corporate international partner do you have now?**

**Who are them?**

**How did Huawei corporate with them?**

**Which factors is most important influencing Huawei's internationalization process?**

**What are your future plans for the internationalization of your company?**