

Strategic Implications of Emerging Chinese Multinationals: The Haier Case Study

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

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Introduction

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

Although the Chinese government encourages the internationalization of Chinese companies, it has not

yet developed a facilitating policy framework for such activities. Many Chinese companies have started to pursue internationalization on an experimental basis while the government has adopted a flexible and practical approach to governing their international initiatives. For instance, it has given special permission to certain companies to invest overseas without being restricted by existing policy hurdles such as foreign exchange controls.

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

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

A Framework for Examining Haier's Internationalization

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

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

Internationalization of the Haier Group — a Case Study

Haier's Development and Performance

Haier's predecessor was the Qingdao Refrigerator Plant (officially renamed as the Haier Group in December, 1992). Mr Zhang Ruimin was appointed as the plant director in 1984, the fourth one in that year. The plant then made a loss of 1.47 million yuan (equivalent to US\$525,000). Zhang Ruimin then had

to find loans in order to pay salaries for 600 employees. As a loss-making enterprise, it was impossible to get credit from regional banks. Zhang had no choice but to turn to farmers in villages to borrow money. At the same time, he endeavoured to improve enterprise efficiency, discipline, and quality control. Some measures included prohibiting employees from arriving late at work and leaving early for home, and furthermore, forbidding urinating and defecating in workshops. To improve product quality, Zhang Ruimin ruled that if defective products were produced, 20 per cent would be deducted from the salaries of all the employees involved.

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

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

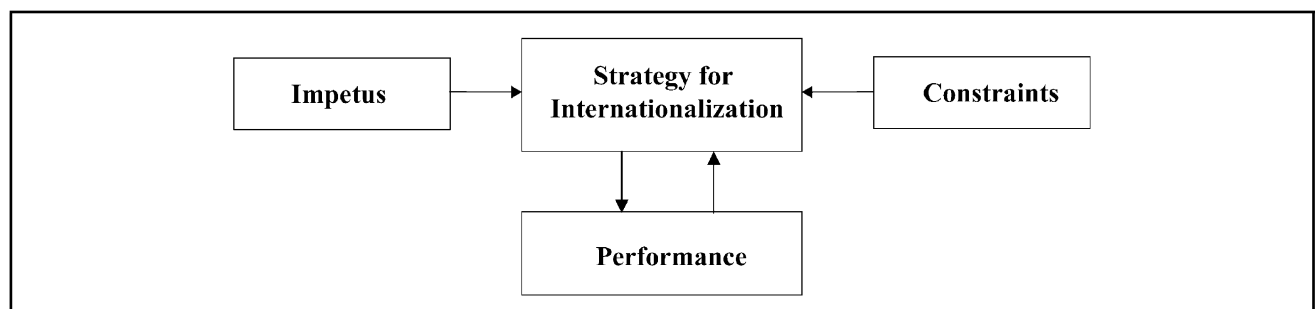


Figure 1 A Framework for Internationalization of Chinese Companies

has now become the world's sixth largest home appliance maker (Fonda, 2002).

In summary, Zhang Ruimin has been instrumental in transforming Haier from a near-bankrupt enterprise to one with discipline, a well-nurtured corporate culture of innovation and market orientation, and a global vision. It appears that both its domestic business strategy and internationalization strategy, to date, have been successful.

Driving Forces for Haier's Internationalization Initiative

There were many factors leading to the internationalization of Haier's business, including internal and external driving forces.

Internal Driving Forces

It is Zhang Ruimin who has led the company, from near bankruptcy, to stand up and grow from strength to strength. He has firmly established his leadership within the company. Therefore, his aspiration to compete globally and become one of the Global 500 has played a vital role in Haier's active pursuit of internationalization.

He had an internationalization mindset from the initial stage of Haier's development. In 1984, soon after having joined the plant, he introduced technology and equipment from Liebherr, a German company, to produce several popular refrigerator brands in China. Meanwhile, he actively expanded cooperation with Liebherr by manufacturing refrigerators based on its standards, and then they were sold to Liebherr, as a way of entering the German market. In 1986, the value of Haier's exports for the first time reached US\$3 million. Zhang Ruimin later commented on this strategy: 'Exporting to earn foreign exchange was necessary at that time. However, it was only one of two purposes. The other purpose was to make our brand names famous internationally.'

Research has shown that global companies tend to be major players in their home countries with a large part of their income coming from international markets. Electrolux, Siemens, GE Electronics, and Whirlpool, for instance, earned 90, 56, 46 and 38 per cent of their total income from international markets respectively. Thus, to follow the trend and grow strong and large, Zhang believed that Haier had to go global.

As it became increasingly successful in China, Haier set its ultimate objective as joining Global 500. To achieve this, in 1998, two consulting companies, including the BCG, were commissioned to carry out a project on Haier's strategy for entering Global 500. One of the major conclusions was that trans-regional transactions of white home appliances had decreased and would continue to decrease. The main reason

was that too high a shipping cost would make the price of home appliances uncompetitive because of their bulky sizes. Thus, exporting its products from China would not help Haier achieve its objective. Having a regional manufacturing presence was a necessity for Haier to become a major international competitor.

Why should Haier move to the USA while seemingly it has neither technological nor cost advantage? It appears that it has gained location advantage by setting up plants overseas to avoid tariffs and reduce transportation cost. Internalization advantage has been attained through controlling services and marketing/distribution, and ownership advantage has been achieved by developing design and R&D capabilities through utilizing high quality local human resources (Dunning, 1981).

External Driving Forces

A number of external factors have had a major influence on Haier's internationalization activity. The saturation of Chinese home appliances markets, with intensifying competition, has been a major impetus. After the mid 90s, price wars broke out one after another in various home appliance markets. At the end of 2000, Haier's market shares of refrigerators, freezers, air conditioners, and washing machines had reached 33, 42, 31 and 31 per cent, respectively. The potential for further development in the domestic market was therefore limited. However, its excellent performance in China allowed it to expand overseas.

The entry of global home appliance manufacturers into the Chinese market forced Haier to seek international expansion. In particular, since China joined the WTO, almost all the international competitors have invested in China, establishing wholly-owned companies. The best defensive strategy for Haier would be to have a presence in its competitors' home markets.

Haier's initiative in internationalization was encouraged and supported by the Chinese government. Being an international player gained Haier some special conditions that other Chinese companies could not obtain. For instance, Haier had already been approved to establish a financial company, to be the majority shareholder of a regional commercial bank, and to form a joint venture with an American insurance company. Without its active pursuit of internationalization as well as a dominant position in home appliance sectors, it would normally be impossible for a manufacturer to get approval to enter the financial sector.

Haier's Strategy for Internationalization

As mentioned above, Haier's strategy for internationalization was hitherto successful. There has been a number of key components in its strategy:

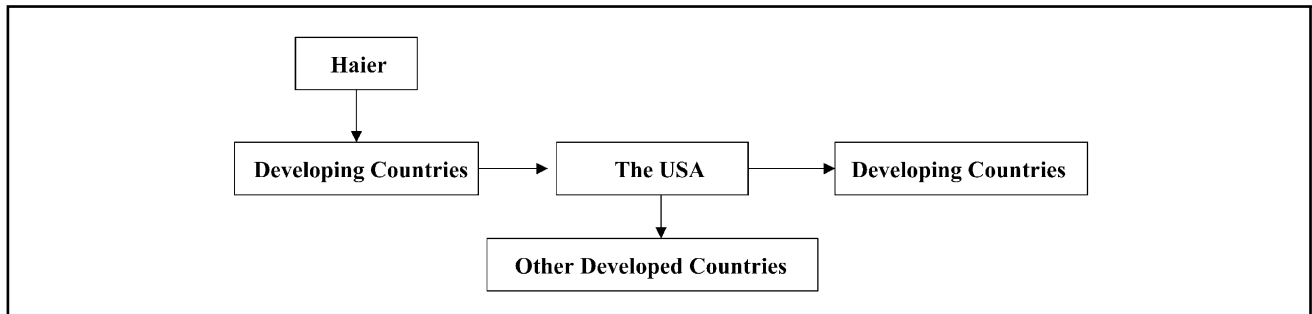


Figure 2 Path of Haier's International Expansion

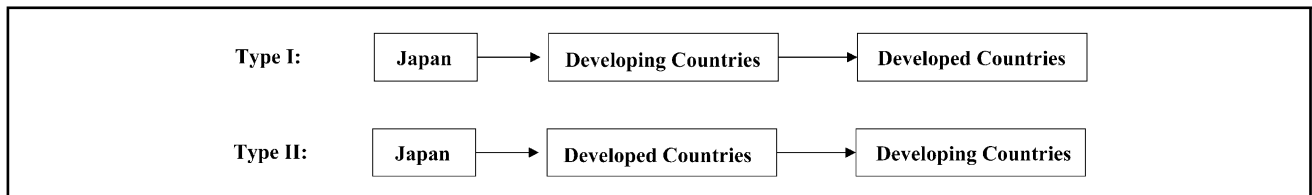


Figure 3 Paths of Japanese International Expansion

(1) Haier's international (investment) expansion in terms of the sequence strategy has followed the path illustrated in Figure 2. Interestingly, it has a great resemblance to that pursued by Japanese companies when they entered international markets. Two types of Japanese global market expansion identified (Jatusripitak *et al.*, 1985) are relevant, as shown in Figure 3: Haier's initial stage of internationalization also focused on developing countries (southeast Asia) to build volume and acquire international experience. Its first overseas joint venture was launched in Indonesia, on December 6, 1996. It signified that Haier had taken an important step towards internationalization. This was followed by a few more investment projects in developing countries before it moved to the USA in 1999. It established a design center in Boston, a marketing center in New York, and a manufacturing center in South Carolina, with a total investment of US\$30 million, the largest FDI from China in the USA (Table 1 chronicles Haier's FDI projects).

A major difference between Japanese companies and Haier in the Type II path is that the Japanese concen-

trated on high-tech industries such as computers and semiconductors which were developed at home, while Haier has focused on its traditional product lines — home appliances — but tried to develop its technology in the USA.

Haier's success in the US market supports its investment and operations in other countries through the spin-off of technology and reputation/image. In the ground-breaking ceremonies of an investment project in Pakistan and a Haier Plant in Bangladesh in 2001, all local officials linked Haier's presence there to its performance in the USA in their speeches. With the confidence and experience gained in the US market, in June 2001, for the first time, Haier acquired an Italian company. This company would produce Haier refrigerators based on the designs provided by French and Dutch engineers, and the products would be sold within the European market.

(2) $3 \times 1/3$ International strategic objective. Haier's international strategic objective is to produce and sell one third of its total output in China, make one third of its total output in China but export it to international markets, and manufacture and sell one third in foreign countries (therefore, ' $3 \times 1/3$ '). Haier has set a strategic target of 25–30 per cent of the domestic market share for all types of home appliances. Zhang Ruimin has believed that an expansion beyond this would decrease marginal benefits, and Haier must go overseas and develop Haier's design, manufacturing, and marketing networks internationally, particularly in the USA, to build up Haier's international reputation of brand.

(3) Haier's export strategy is entering and tackling tough markets (those in developed countries such as the USA and Germany) first before easy markets or those in developing countries. Once Haier has had a

Table 1 Foreign Direct Investment by Haier Group

Year	Location	Products
1996	Indonesia	Refrigerator
1996	Philippines	A/C, Refrigerator
1998	Malaysia	A/C, Refrigerator
1999	Iran	A/C
1999	USA	Refrigerator
2000	Bangladesh	A/C, Refrigerator
2000	Vietnam	Refrigerator
2001	Pakistan	A/C, Refrigerator, Washer
2001	Italy	Refrigerator

strong foothold in difficult markets and created the reputation of its brands, it can then expand from a strategically advantageous position into other easier markets such as developing countries. Following this strategy, Haier first successfully introduced its products into the German market, the most difficult one in the EU.

Unlike the traditional Chinese approach to marketing, where Chinese companies set up their own marketing companies in every country, it uses local distributors. Haier found out through market research that, in developed countries, there are numerous mature distributors for each product, with developed marketing channels. These distributors are familiar with local marketing practices and environment, and have no barriers in language and cultural features. Currently, Haier has established a total of 62 distributorships internationally, covering over 40,000 sales network points with exports reaching 160 countries and regions.

Having developed a market position and gained market share with accumulated marketing experience and brand reputation in developed countries, Haier then started to explore markets in developing countries. For most customers in developing countries, it would be difficult for them to question a brand name that had already established popularity in developed countries, and much more importantly, the price of this reputable brand would be very competitive.

(4) A product-focused international market entry strategy. Entering an international market, Haier focuses on the marketing of one product. Once this product becomes successful, other products will be followed benefiting from the established brand name. This is exactly what Haier has done in the US market. Initially, Haier concentrated only on the marketing of refrigerators. After they successfully secured a market position, its washing machine lines followed, and this required little promotional effort.

(5) One step closer to international customers than competitors through competition against time. Haier tries to use its design and manufacturing capabilities to meet special requirements with minimum waiting time, and is willing to go the extra mile to do so. 'Would you be able to provide a triangular refrigerator should a customer want it? It is our philosophy and advantage to meet such a personalized requirement,' said Zhang Ruimin.

In early 2001, for example, attending a conference at the head office, the general manager of Haier USA mentioned some problems that existing freezers had and proposed the redesign of a model for the US market. The proposal was made in the afternoon, and the next morning, after only 17 hours, a prototype of such a freezer was surprisingly presented to him. After having received feedback from consumers on

the prototype in a US supermarket, it has been sold well in the USA, and also attracted great interest from other countries.

(6) Localization of human resources, capital, and culture to build up a world famous brand. Localization of human resources is a major step for Haier as part of its international strategy. Haier's sales organization was located in New York. All employees from its general manager and assistant managers to office staff were Americans. Only the chief financial officer has been appointed from its head office. A minimum salary for the American general manager is about US\$250,000 with performance-related bonuses, and this is quite high for a Chinese company. It has also set up research and development centers in lead countries such as the USA and Germany. The establishment of such centers is strategically intended to develop, acquire, and transfer technology.

With regard to the localization of capital, Haier's specific strategic plan has been to list Haier USA on the US stock market in three years. Haier firmly believes that its corporate culture has been strong and successful in China. However, it has been aware that it is necessary to integrate its own corporate culture with local practices and develop a Haier corporate culture that is completely acceptable to local employees and customers.

Constraints on Haier's Strategy for Internationalization

Haier's initiative in internationalization has also been subject to a number of constraints that it has to overcome. Most of these are generic in nature, that is, they are applicable to all Chinese enterprises intending to go international.

Limited Resources

The capabilities of acquiring international experience determine Haier's speed of international expansion. These are reflected in the capabilities for local operations, promotion, distribution, after sale service, and cultural management and adaptation. However, these resources are extremely scarce within China, and thus difficult to acquire. Some of these capabilities may be acquired in a short period of time by utilizing foreign resources and learning from partners and international distributors. For the long-term point of view, Haier must acquire such resources from China.

A lack of human resources can negatively influence international business development. For example, managers from the Chinese and American sides of Haier USA both reported a certain degree of difficulty in communications. According to the US general manager, due to the language barrier, it is very difficult to perform a 'brainstorming' exercise, in which new ideas or better suggestions may be gener-

ated as a result of the enlightenment of others during meetings and discussions.

R&D Capabilities for Core Technology

Technological innovation is a key to maintaining a firm's competitiveness. In most Chinese enterprises, there has been a lack of technological competence or resources. This was also the case with Haier. Haier currently develops, on average, 1.2 new products and applies for 2.3 patents daily, and ranks number one of all Chinese enterprises. Nevertheless, along with other Chinese white goods manufacturers, it has remained highly dependant on foreign key components and technology. These include high-performance electromotors, compressors, controllers, magnetrons, and sensors.

Haier has been fully aware of this weakness, and has taken the following measures to address it:

1. Increasing investment in R&D. In the period 1997–2000, Haier's annual R&D investment is shown in Table 2, and it ranked number one in the industry.
2. Establishing research and design centers both domestically and internationally. To date 15 have been set up, with six of them in developed countries: USA, Canada, Japan, France, and The Netherlands. The main responsibility of these foreign centers is to help the head office develop home appliances that meet the needs and wants of local consumers.
3. Forming international technological alliances with major multinationals. These companies included those such as Mitsubishi, ESS, Lucent, Metz, and Philips. Alliances and joint ventures have taken place in many sectors such as refrigerator, washing machine, and digital color television.

International Brand Awareness and Image

Compared to Western multinationals manufacturing home appliances, Haier is disadvantaged in international brand awareness and image, particularly in developed countries. Consumers of developed countries are familiar with brand names such as GE, Electrolux, Whirlpool, Siemens, Sony, Panasonics, and LG, but few of them have heard of Haier or its products. Haier is a Chinese brand name, while China, as a developing country, has for many years exported raw materials and low value-added products. Therefore, it is difficult to change the perception of consumers in Western countries in a short period of time.

A Lack of Experience in International Business

Haier has been the major Chinese manufacturing company that started to internationalize aggressively. Without any prior international experience, it often has to make progress on a trial and error basis, and has often paid expensive tuition fees. The project in Indonesia was the first foreign investment attempt made by Haier. Soon after the inauguration of production, major political turmoil in Indonesia forced Haier to shut down this operation. A similar disaster also occurred in Yugoslavia where wars destroyed Haier's operations there. With the acceleration of its internationalization, Haier has gradually learned to be mature and pay more attention to feasibility studies of the business environment in which FDI is made.

Conclusions and Strategic Implications

Haier has been one of the few pioneers in Chinese manufacturing to have ventured internationally. To date, its strategy for internationalization has been on the whole successful, despite some hard lessons learned from a few failed FDI projects. It is expected that some more Chinese companies will follow suit but at a slower speed of development. For instance, TCL, a major Chinese electronic giant, having set up sales and representative offices in the USA, Russia, Singapore, Indonesia, India, Vietnam, Philippines, and Hong Kong, invested in manufacturing facilities in India, Vietnam, and the Philippines. Exporting its products to over 80 countries and regions worldwide, Chunlan, a diversified Chinese conglomerate, established assembly lines for motorcycle and air conditioning production in Russia, Spain, and Argentina.

Some strategic implications can be drawn from the Haier case study:

1. Despite some external factors that have driven Haier to go international, Zhang Ruimin's personal leadership and aspiration have played a dominant role in Haier's pursuit of internationalization. This centralized organizational structure or individual dependence can result in a fast decision-making process, and explains why Haier has been able to move into a large number of countries within a short period of time. It may also entail a high degree of uncertainty or risk. Thus, if a firm such as Haier has a highly competent strong

Table 2 Haier's Investment in R&D (1997–2000)

	1997	1998	1999	2000
Investments in Research and Development (Million RMB Yuan)	480	780	1030	1949
Percentage of Sales (%)	4	4.6	4.8	4.8

- business leader, a relatively centralized structure can work better than a decentralized one.
2. Some of Haier's later decisions have been questioned, such as the logic of buying an Italian company where cost is high, and its technology is not at the forefront. There are also concerns about how Haier can balance its foreign currency requirements with such a rapid speed of international expansion (*Business Week*, 2002). It is notable that with the support of the Chinese government, Haier has now got into the financial sector, and acquired majority shareholding in a regional bank. In addition, as a Chinese flagship company, it is likely that the Chinese government may give Haier some financial backing from the financial channels that may not be available to other Chinese companies. In other words, Western home appliance companies may have to compete with this new competitor that has a stronger base of financial support than it appears to have.
 3. Haier's success (to date) is built on its competitive advantage that still falls into classic competitive paradigms: more flexible, faster, closer to customers, and more focused. Haier can do so because Zhang Ruimin has developed such an organizational culture under his personal leadership. This is quite similar to the earlier period of IBM when Watson promoted a culture of 'respect for the individual, devotion to customers and pursuit of excellence in all activities' that prevailed in IBM. Haier's experience has further demonstrated the fundamental and successful tenets of market orientation and innovation, which many Western companies seem to have forgotten or moved away from.
 4. Western multinationals should ask themselves the question: why can a company from a developing country with limited resources and non-technological and cost advantage come to our markets and take away our market share? It seems that Haier has only recently started to play the game that Western multinationals have played for a long time, but in some areas it has slightly outperformed the founders of the game. It may be said that Western multinationals have paid too much attention to 'globalization' or 'standardization' and left some 'blind spots of markets' at home and abroad.
 5. As a company from a developing country, Haier has some disadvantages, compared with Western multinationals, such as a lack of resources and advanced technology. However, to date, it has managed to overcome such disadvantages by setting up research centers in developed countries and developing strategic alliances for technological development with Western multinationals. These research centers have been used to develop, acquire, and transfer technology. These strategies have general applicability to those companies in developing countries that have a strong foothold at home, because Western multinationals are willing to trade off technology against market penetration.
 6. A Chinese company that has the intention to go international must acquire a strong foothold in its home market. This can provide it with the possible support from the Chinese government and financial backing needed to sustain its international operations. Without this, it can be exposed to high risk, and is more than likely to be short lived. More importantly, it must have something unique to offer, either distinctively different from or better than its competitors.

Appendix

Methodology

This paper was based on the case study of a single company, the Haier Group, and involved two methods of data collection: interviews and the company's administrative records and documents (Bailey, 1978). The authors were able to have access to both internal strategic documents such as minutes of strategic meetings and feasibility study reports and full cooperation from the company's top management for interviews. Interviews were conducted with a number of company's senior management team members, including Mr. Zhang Ruimin, CEO of the Haier Group.

The choice of the case study method to address the internationalization of Chinese enterprises is based on two rationales (Yin, 1994):

1. Haier represents an 'extreme' or unique case as it has stood out as one of the few 'pioneers' of Chinese multinational manufacturing, and has been most active and aggressive in international expansion. Thus it is worth documenting and analyzing.
2. It is a revelatory case. Given the fact that Haier has a fairly centralized management style, and Zhang Ruimin personally has to involve all the strategic decisions, particularly those on Haier's internationalization, it is a rare opportunity for him to be available for interviews. With his attendance at interviews, this study is able to present a complete view on Haier's international activities.

A single case study can often be used to pursue not only exploratory (or descriptive) but also explanatory examples. 'Descriptive case studies may be exploratory, if relatively little previous research exists on the topic, or they may be illustrative "portraits" of social entities or patterns thought to be typical, representative, or average. Sometimes both elements are combined in a single study, with the most detailed account being presented for the case, or cases, that are most typical' (Hakim, 1987).

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