

Huawie Strategic Marketing Beyond China-The Internationalisation Process

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INTRODUCTION

[1] defined a MNE as a company that owns and controls activities in two or more countries. Huawei falls under this category of firms as it operates in many countries of the world. Huawei is an enterprise engaged in the provision of communication network equipment and services. It took the company only 14 years to establish its leading position in the international communication industry, and by 2010 the company's worldwide sales has reached 34 billion dollars [2]. In this paper, an exploration into the internationalization strategies used by Huawei is undertaken. In addition, based on the identified internationalization strategies and their evaluation, recommendations on how the company could sustain its competitive advantage are made.

Huawei Technologies Co Ltd is a Multinational National private company which is now one of the top 500 companies in the world. The company remains private, high-tech business enterprise with headquarters in Shenzhen, in the Guangdong Province of China, and is at present the largest suppliers of networking and telecommunications equipment for mainland China [3]. Huawei Technologies started first as a small distributor of imported Private Branch Exchange (PBX) products established in 1988 by Ren Zhengfei with an initial registered capital of 24,000 yuan (about \$3,400). By 1989, Huawei had started developing and later marketing its own PBX products and solutions consisting mainly of wireless hardware that supports cell phone and

data network [4]. As time went on, Huawei achieved a breakthrough in the telecommunication technology industry and went global. Today, Huawei's overseas sales is greater than the company's domestic sales. The company has established Research and Development centres in market in many places in China and overseas. [5] stated the company has become the largest telecommunications equipment maker in the world, since it overtook Ericsson in 2012.

The Concept of Internationalization

According to [6] "Internalization is a general principle that explains the boundaries of organisations; its application to the MNE is just one of its many spin-offs". The concept is targeted specifically on explaining where the boundaries lie, and how they shift when circumstances in the business environment changes [7]. Internationalization is a highly specialised concept meaning that international activities should be regarded as something distinct from other activities in a firm because it involves greater physical and psychic distance [8]. Firms begin to internationalise when they are convinced that the benefits of internationalising will be greater than the cost of doing so. [9] stated that "internationalisation occurs in a context of high uncertainty. Therefore, firms proceed in small steps, adjusting according to the experiences made as they do business in foreign markets." This is what the Uppsala Internationalisation Model is all about.

THEORETICAL FRAMEWORK

This work is based on the Uppsala Internationalisation Model. The dynamic process of internationalization of individual firms is explained by the Uppsala model [10]; [11] [12]. According to [13], the Uppsala Model is a model of internationalisation of firm that explains that the gradual incremental steps to international business expansion is based on a series of incremental decisions, whose successive steps of increasingly higher commitments are based on knowledge acquisition and learning about the foreign market. The steps of foreign activities begin with export to a country through independent representative/agent, followed by the establishment of sales subsidiary and finally engaging in production in the host country [4]. The Uppsala Internationalisation Model explains that there are four different approaches to entering into 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" [7]. These four methods are said to follow a sequence that range from low to high degrees of internationalisation [5].

Identification and Evaluation of the Internationalisation Strategies used by Huawei Technologies Co. Ltd

Chinese firms are well known for striving toward becoming a global player in varied enterprises. Case studies indicate that there are three routes Chinese firms explore towards internationalisation: (1) the partnership route through Original Equipment Manufacturer (OEM) or joint venturing; (2) the acquisition route; and (3) the organic expansion route [9]. According to these authors, the partnership route is a way followed by Chinese firms to realise what could be called 'inward internationalization', whereas the second and third channels are ones to fulfil 'outward

internationalization'.

Many internationalisation strategies such as exporting: direct and indirect; franchising, alliances, acquisitions, licensing, joint ventures, management contracting, technical services agreement, contract-based partnerships, equity-based method which involves the use of foreign direct investment(fdi) as a means of competing in the global business economy, and consortia are open to firms as strategies for internationalisation. In the use of any of these strategies, firms may follow the Uppsala Model of sequential step by step approach.

However, [3] argues that their study of the foreign market entry strategies of Huawei indicates that hi-tech enterprise in the new economy could apply different methods in different host markets at one stage of internationalisation. This indicates that hi-tech enterprise may not just follow an established international market entry strategy but must take certain other factors into consideration before choosing the mode of market entry. In support of this view, [6] stated that in order to achieve the objective of internationalisation, a company should consider three factor - firm factors, environmental factor and moderators - and the case of Huawei showed the evidences that the mode of entry needed was truly decided by host market environment condition and firm factors, while the industry characteristics play an important role in foreign market entry mode choice. The Uppsala Model provides useful internationalisation guide for firms. However, Huawei launched its business into international market without following the sequence suggested by the Uppsala.

Huawei Technologies Ltd belongs to the category of firms that employed what [12] called Global first-mover strategy in its internationalisation approach. According to the author, this strategy involves an emerging market firm operating at the global technology frontier or being a trailblazer in a new emerging industry rather than a late follower in a mature industry. Huawei came on board in

telecommunication industry when this form of business was beginning to boom. Ramamurti cited Huawei of China in 3G telecommunications equipment and Suzlon Energy of India in wind power as the two firms that used Global first-mover strategy of internationalisation. It can also be argued that Huawei also uses Global Consolidation Strategy to strengthen her market position in advanced economies of the world and low-cost partner strategy to serve as supplier-partners of companies in high wage countries.

When Huawei first chose to enter into international market, the first step of internationalisation was providing customized design of number portability service' for Hutchison Telecoms, Hong Kong in 1996 [7]. The author said it took Huawei only 3 months in assisting Hutchison to actualise the service as against six months standard set by European telecommunication manufacturers. It cannot be said that at this stage, Huawei has entered into international market but at least, this could be said to be the beginning of the company's test of its ability in hi-tech outside its domestic market. The internationalisation strategies employed by Huawei are explained below:

Joint Venture: Joint venture is different from other modes of market such as licensing and franchising. Joint venture involves creating a new identity in which both the initiating partners play active role in formulating strategy and making decisions [5]. Huawei's first internationalisation process strategy started with setting up of joint venture. It used this internationalisation strategy to enter Russia and Southern America market. When 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. The company made huge progress in Russian market and at present Huawei has become the Chinese company with the biggest investment in Russia. According to [11], in 2004, Huawei and Siemens combined forces for the development of the 3G mobile

communication standard; in 2007, Huawei formed a venture with Global Marine Systems, a sub-sea cable installation and maintenance company. The goal of the partnership was to develop the world's first global submarine network. The new company, Huawei Global Marine, officially started operating on December 18, 2008. Huawei also formed a joint venture in 2000 with IBM when the two firms created a deal whereby Huawei was to have access to IBM's world-class R&D technology centres [2].

Joint venture was an appropriate internationalisation strategy for Huawei at this initial stage. This is because the company technology-intensive business involves high risk which needed to be shared and also the need to lower cost, gain economy of scale and secure access to partners technology, its accumulated learning and projected market position as well as find their foot in the industry to help the company in more effective future competition [5].

Export Entry Mode in South America, Asia and Africa: The export based mode of internationalisation occurs when a firm continues to produce its product in the domestic market, but exports part of the output it produces at home to foreign markets [9]. Huawei used exporting method of entry in the first stage of internationalisation when the company entered South America market [1]. The authors explained that the factors that influence Huawei to employ this method of entry into South America market were geographical distance and local market conditions. Gong by the nature of Huawei's products and services, it could be argued that the company used both direct and indirect exporting method of internationalisation.

Indirect exporting method involves the use of intermediaries to market products in foreign markets. In this case, "the exporting firm does not itself undertake any special international activity" [13]. Direct exporting involves the firm in the distributing and selling of its own goods in the foreign market and in this case, the firm would need to choose local agents and distributors specific to that market

[7]. After Huawei used export entry method to enter South America market, it used the same method from 2000 to enter Asia, Mid-east and North Africa market, [5] stated that in these latter markets, Huawei sent out many of sales and service engineers from China to set up branches and service centres in these countries. Exporting by either direct or indirect modes is said to be associated with less risks than other methods of internationalisation, and these methods can be used by a firm to get into a new international market to test the waters before making resource-intensive decisions [3]. However, there are still some risks such as the risk of unexpected change in exchange rate which may affect profits of the firm [8] if the change is unfavourable.

Contractual Entry Modes in North America, West Europe and Other Countries: In the developed countries of West Europe and North America, Huawei applied different contractual modes of entry to these markets. [11] said that the firm used franchising, co-research, co-production (OEM) and co-sales (help each other to sale products in each own markets).

- a) Franchising: This describes the method of entry into international markets where the franchisee buys the right to undertake business activity using the franchisor's name or trade mark instead of any patented technology [10].
- b) Contract-based Partnering for co-research and development activities:

Huawei entered into partnership contract with other companies in Europe to cooperate in research and product development and sales. For instance, in European market, "Huawei co-operate with Marconi in product development and marketing" [5]. The authors said that Marconi assists Huawei to sell products in Europe using their channels and simultaneously Huawei helps selling Marconi's product in China and Asia markets. Also, in early 2002, Huawei assisted Motorola in Mobile network infrastructure area using the OEM

method. This form of alliances has continued to keep Huawei afloat in global businesses [6]. [7] stated that in its efforts 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. This method enables Huawei to gain from the R&D ability and the 3Com's international market resource. [13] stated that Huawei-3COM's partnership alliance is partnering aimed at defending the company against competition. This protection is a relevant step taken by Huawei against 3COM's because the main products of 3COM are in computer network, and in this area it is a direct competitor of Huawei, as both companies produce hardware including routers and switches [4].

The analysis of the foreign market entry strategies of Huawei, shows that it did not follow strictly the Uppsala internationalisation processes. The case of internationalisation of Huawei suggests that a hi-tech enterprise in the modern economy could adopt different methods of entry in different host markets at one stage of internationalization [4]. Huawei has made significant progress in global market as at 2004.

Recommendations on Future Strategic Direction

In this section, recommendations on how Huawei can sustain its competitive advantage are made and the implementation strategies that could be followed by the firm to maximise results from the recommendations are suggested: Technology based firms thrive on innovations. A firm that is technology based as Huawei Technologies Co. Ltd needs to remain strongly innovative in order to withstand the competition posed by its rivals in the global market economy. Although Huawei is currently rated high in the area of innovation, most of the innovations of the firm is said to be copied from other firms. In support of this view, [13] citing Financial Times stated that an observer who had been part of the company for a long time pointed out that many of Huawei's products

appears to be derived from other companies in the industry - "whether through 'patent mining', a legal process of combing through patents to identify opportunities, or through reverse engineering, which involves buying a rival's product, taking it apart and designing a product based on the rival's engineering." Other experts in the industry like Max von Zedwitz, an expert on global R&D management are also questioning the technological and innovative capability of Huawei. However, the company strongly denies such allegation but this does some damage to the corporate reputation of the company, and must be addressed to redeem the corporate image of the firm.

Huawei should endeavour to avoid anything that could lead the company to legal battle. This is because the money and time that may be wasted when the company is dragged to court could be better invested in research and development. For example, Huawei has been dragged to court more than once with regard to infringing on the copyright and intellectual property of other companies. [5], Cisco Systems sued the Chinese telecom equipment vendor in a Texas court for theft of intellectual property and copyright violation. The lawsuit was settled when Huawei agreed to modify the products that had prompted the dispute". "In July 2004, Fujitsu Network Communications caught a Huawei engineer removing the cover from a piece of networking equipment at a Chicago trade show and taking pictures of the circuits inside. Huawei later fired the employee and said his actions were not authorized" [11]. But the damage to the name of Huawei has been done. Therefore, it is important that Huawei makes effort to be original in their innovation and depend less on the technologies of their alliances. This is an important step Huawei needs to take as a safe guard against any breakup

Chinese companies are rapidly growing and making a breakthrough in internationalisation of their businesses. Huawei Technologies Ltd which is a Telecom company has achieved a great

of the alliances that give the company the advantage of benefiting from the technology developed by their co-researchers.

To effectively implement this policy, Huawei needs to invest more on Research and development and engage its engineers in constant overseas training. Although in the past ten years, the company has invested over 130 billion RMB in research and development, and established 16 research institutes in China, Germany, Sweden, United States, France, Italy, Russia, India and other places [9], these research institutes needs to concentrate in promoting radical innovation to replace old products with new one with increasing rapidity. While incremental innovation is not completely out of place, the pace of other companies in the same line of business with Huawei requires that in order to retain its competitive advantage over these companies, Huawei should engage in radical innovations in all its research and development institutes.

In the global market economy, country of origin (COO) of a product or services is still playing significant role in determining consumers preference. It is vital that Huawei Technologies Ltd should be aware of the negative implications of the company being of Chinese origin and locating its headquarters in China. Although Huawei has tried to overcome the problems associated with COO by forming various forms of alliances with companies from developed countries of the world, it will be beneficial for Huawei to convince both the present and potential customers that its technology is not substandard and the services can be relied upon. The company can do this by penetrating into new market using low price policy and selling superior products that can win the interest of their customers after using the products or services.

CONCLUSION

height among the several Chinese companies like Lenovo that have gone global. Although Huawei is a private company, it has become a household name in telecommunication industry. In

its internationalisation strategies, Huawei has successfully employed export-based strategy, franchising, contract-based

partnering and other strategies as was dictated by the the nature of the business environment of their host countries.

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