GO GLOBAL: THE NEXT CHALLENGE FOR CORPORATE CHINA

By Professors Katherine Xin and Arthur Yeung  (November 2007)
As China continues on its path to becoming a major economic power, many Chinese companies are making the transition from competing domestically to competing with the best in the world. Since a large number of these companies lack the international experience, professionalism and organization that foreign companies might have, they must focus on building an effective globalization strategy tailored to suit their needs and capabilities.

Two important dimensions of a globalization strategy are market focus and resource utilization, both of which may entail a global or local orientation. Depending on the choices a company makes along the two dimensions, it can fall into one of the four following types:

- Local market competitor - captures the domestic market with domestic resources
- Global sourcer - uses overseas resources to build domestic strengths
- Global Exporter - uses domestic resources for a cost advantage to expand into global markets
- Global market player - uses global resources to compete globally.

It is important to keep in mind that the focus of a globalization strategy is dynamic, and a company can engage in different strategies during various stages as its capabilities and relative advantages change over time.

**Market Focus**

Chinese companies that decide to enter global markets must keep in mind that they will be required to pit themselves against some world-class competitors. A globalization strategy is essential here and several issues need to be taken into account:

1. **Growth potential and speed of development at home**

Chinese companies can leverage local knowledge to grow domestically or, if faced with a saturated domestic market requiring high expansion costs, explore the feasibility of entering an overseas market. For example, Lenovo, the market leader in PC manufacturing in China in 1996, would have found it difficult at the time to further increase its market share in the domestic market. In order to expand and take advantage of economies of scale, it had to enter international markets. In contrast, other Chinese companies, such as Alibaba, Hualian Supermarket, CPIC (China International Marine Containers Group) and Henan Jianye, have found that there is still much room for growth in the domestic market. Consequently, they have chosen to leverage their local knowledge to grow domestically.
2. Homogeneity of products and services across borders

The more consistent the product or service is in different regions, the lower the management risk and the easier it is to gain economies of scale. Trend Micro, for example, produces antivirus software, and the nature of viruses forces the company to produce software that addresses viruses in a global manner. An “Asian”-focused antivirus product would not stand a chance. Conversely, it is difficult to maintain consistency across national borders for some service sectors such as restaurants, accounting firms, law firms and real estate agencies.

3. Core capabilities and brand considerations

Many Chinese companies lack brand recognition in developed markets like Europe and the US and battle the negative perception that their products are cheap and of poor quality. This can cause difficulties when entering developed markets with their own brands. A niche strategy may be needed which promotes core strengths and abilities and targets a specialized market segment. Haier is an example of a Chinese company that built its own brand in the US by targeting specific segments rather than competing head-on with industry giants such as GE and Whirlpool.

4. Similarity of emerging markets

To reduce risk, a Chinese company can enter developing markets – e.g. Asia, Latin America and Africa – which are similar to China. These markets are less competitive and Chinese brands are more readily accepted. This can provide a breakthrough point and training field for its globalization initiative. Once successful in a developing country, the company can then turn to a developed market. It was in this way that Acer successfully expanded into Europe and the US after many years of operating in South East Asia.

Resource utilization

When developing a globalization strategy, the resource base of the company should be compared with the resources it needs to grow. This helps decide upon either exploiting domestic resources or integrating global resources. TCL, Lenovo and BenQ were all successful companies in China. But to become world-class, they had to overcome disadvantages in talent, technology, brand recognition and international channels. So they took over some businesses of MNCs (multinational corporations) to obtain valuable resources.
Possessing international acumen

Employees experienced in foreign markets and business practices will be in the best position to build globalization capabilities. It is essential to ensure that company leaders have a global mentality and cross-cultural management skills. To achieve these ends, companies can develop their workforce by introducing international management systems and standards in the domestic market and by competing with high-caliber international companies that are active locally. By competing with Nike and Adidas, Lining strengthened its staff’s skills in product design, brand marketing and supply chain management, as well as strengthening the management systems. Another way to foster an international mindset is to send select talent overseas to gain experience.

Globalization routes

Once a company has decided on its market focus and determined what resources it needs to move its globalization efforts forward, the next step is to develop a strategy that outlines the best route or routes to take to achieve its globalization goals. In doing so, a company must be careful to avoid opportunism, through acting rashly, and overestimating its organizational capability. A company should have a clear vision and evaluate its strategic focus and organizational capabilities correctly.

Strategic focus

The strategic focus of a company may be to secure overseas resources, or to rely on domestic resources to reap the benefits of the global market’s scale, or indeed to become a global market player. Depending upon which one, a company can adopt a suitable globalization route that best suits its needs.
Organizational capabilities

Important capabilities to consider here when evaluating the best globalization route include - global organization management, cross-cultural management and resource integration.

Depending on a company’s unique set of circumstances, one or a combination of the following three routes will stand out as the best road to take to ensure the success of the globalization strategy:

1. Internal growth is slow, but the company can control the rhythm and risks.
2. Mergers and acquisitions (M&As) are fast and effective, but integration is a thorny problem and the failure rate is high.
3. A strategic alliance can help the company enter an overseas market, but relations between partners are often vulnerable and uncontrollable.

The way forward

Chinese companies, with their often weak organizational capabilities, must use wise strategies that focus on their strengths and evolve their weak capabilities into stronger ones. Currently, the most urgent task for Chinese companies is to take a broad, long-term view with regard to improving their global organizational management capabilities. Only in this way can they find new opportunities and achieve success.

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