The Internationalisation and Brand Development of Chinese Firms: A Case Study Approach

Comment [PW1]: A clear title that should reflect the content of your project.

A Dissertation submitted in part- fulfilment of the requirements for the Master of Science (MSc) in Chinese Business

Saxon University

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Comment [PW2]: Typically 'layout of the study' should be the final feature in the introduction chapter.

Comment [PW3]: Well done for including an introduction. This should help to 'set the scene.'

Comment [PW4]: Research Philosophy? Have you covered all areas of your methodological approach?

ABSTRACT

Although the internationalisation of firms has been well documented (Johanson and Vahlne 1977; McDougall 1994), there is a lack of research into the internationalisation process of Chinese firms. Much of the research into China's development has focused on foreign direct investment (FDI), as opposed to China's outward investment. China's increasing attentions towards global brand development has also received limited attention. Other than work by Fan (2006, 2008), this is an area of research that remains under explored. Many of the empirical studies into branding have focused on foreign brands. The Chinese government's intention to create a stable of 'Chinese global brands', underlines the importance of understanding China's global brand development.

This project is an exploratory study into the internationalisation and global brand development of Chinese firms. Although Chinese enterprises started to invest abroad during the early 1980s, the period analysed follows China's accession to the World Trade Organisation in 2001. As well as analysing secondary data from a wide variety of sources, the research primarily focuses on the internationalisation and global brand development of three Chinese firms – Lenovo IBM, Huawei Technologies and Alibaba Group. This research draws on literature from internationalisation theory, Chinese outward investment, branding theory, and Chinese brands.

Comment [PW5]: Good to see reference to earlier studies.

Findings suggest that existing internationalisation theory is inadequate in explaining the internationalisation of Chinese firms. Existing theories tend to be by Western researchers and conceptualised at a time prior to China's reform period. This study notes the differences displayed by Chinese firms and how a rethink is required in terms of internationalisation and its application in a Chinese context. The research highlights a huge increase in mergers and acquisitions involving Chinese firms and the strategic reasons behind this growth. In addition, findings provide possible reasons why China does not have what can be described as a truly global brand. These include: lack of marketing expertise, emphasis on domestic market and late market entry. The study concludes with suggestions of possible future areas of research. Examples include: empirical research using multiple cases studies, a longitudinal study and joint research.

Comment [PW6]: The abstract provides a nice overview of the study.

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CHAPTER ONE: INTRODUCTION

1.1 Background to the study

Since the 1978 open-door policy and accession to the World Trade Organisation (WTO) in December 2001, China has become a major economic power. The transition from a command economy to a market-based economy has been astonishingly successful for China. Between 1978 and 1997, China's GDP registered an average annual growth rate of 9.8 per cent, with the per capita GDP growth rate at 8.4 per cent (Reuvid and Li 2000). If it maintains this growth rate, many economists believe it will become the world's largest economy by the year 2020. For the last two centuries one country has emerged as the dominant economic power. The 19th century belonged to the UK, the 20th century the US and it looks like the 21st century will belong to China.

China has achieved a large amount of its economic success as a result of foreign investment. Yet, to what extent have Chinese firms been successful in challenging their foreign competitors in their own backyards? The answer to this question can be best-described as 'limited'. Until recently Chinese firms have largely concentrated on their domestic market, while internationalisation has taken somewhat of a back seat. In spite of this, a number of notable Chinese brands have been developed e.g. WaHaHa (drinks), Gnome (electrical appliances) and Huawei (telecommunications). One measure of an organisations success is its brand attributes. Brand awareness, image and equity are all important features that help to make a brand what it is. The world's major global brands such as McDonald's, Nike, Nokia and Coca Cola all have high levels of brand awareness, generally a strong brand image and high levels of brand equity. It is no secret that China now recognises the significance of developing global brands, and has strong aspirations to become part of the 'Global Brand Super league'. Nevertheless, although there is no doubting China's economic strength, it has yet to develop a portfolio of global brands similar to that of its East Asian neighbours Japan and South Korea.

Much of the current body of literature into China's economic development tends to focus on FDI, rather than outward investment or internationalisation. In addition, the development of Chinese global brands is also largely neglected. This research aims to fill this gap by examining the internationalisation process and global brand development of Chinese firms.

Comment [PW7]: Evidence? Examples could have been given here.

The need to increase understanding into the internationalisation and global brand development of Chinese firms is endorsed by China's entry into the World Trade Organisation, Beijing's hosting of the 2008 Olympic Games, and recent mergers and acquisitions involving Chinese and Western companies. Combine this with continuing year on year impressive economic growth; it is no wonder that the Chinese authorities are keen to establish the globalisation of Chinese brands.

Comment [PW8]: Importance of the study.

1.2 Statement of the problem

A number of internal and external factors have resulted in many Chinese firms becoming involved in the internationalisation process. Increased domestic competition, along with an easing of regulations under WTO, has allowed Chinese firms to penetrate international markets. This has resulted in a dramatic increase in Chinese outward investment. However, there currently exists a limited amount of research into the internationalisation of Chinese firms (Child and Rodrigues 2005; Deng 2007a; Deng 2007b). Child and Rodrigues' (2005) article is one of the few studies that explore internationalisation from a Chinese perspective. Obviously, the growing dominance of China on the global stage is justification for a better understanding of the internationalisation of Chinese firms. Although there have recently been a number of high profile cases e.g. Lenovo's acquisition of IBM's PC division, the actual process of internationalisation of Chinese firms, and reasons behind it, have still not been fully explored. The majority of research focuses on inward, as opposed to outward FDI. Therefore, a gap needs to be filled that explores the reasons why Chinese firms internationalise, as well as how they currently penetrate international markets. There has been a call from a number of researchers to examine the internationalisation of emerging market multinationals (EMM), especially those originating from China (see Fan 2008: 357).

An important aspect of internationalisation is how an organisation develops its brand when penetrating international markets. Often viewed as 'the workshop of the world', China has yet to develop a single brand that can be described as truly global. Building brands fits with the Chinese government's strategy of consolidating strategic industries in order to create national champions that can hold their own in global markets and is viewed as one more way for the country to restore its imperial glory (Shenkar 2003: 158). Reasons for China developing global brands is that the home market is fiendishly competitive and puts constant pressure on prices, branded products can be more profitable than those of Original Equipment Manufacturers (OEMs), and competing in foreign markets forces companies to innovate and improve, thus helping them to move away from their image as producers of cheap goods (Gao *et al*. 2003).

According to one of the world's leading brand consultants – Interbrand, Chinese enterprises such as Haier, Lenovo, TCL and Huawei Technologies are ready to compete on a world stage. Although Chinese brands have made evident and impressive progress in terms of internationalisation, they still have far to go to compete with their global rivals, and the gaps are even widening in some respects. This is demonstrated by the revenue of China's largest consumer appliance company, Haier, which in 2002 amounted to only about ten per cent of Sony's total electronic sales (Fan 2006: 367).

Interestingly, the current 2007 list of Interbrand's top twenty-five Chinese brands includes a total of seven that feature 'China' in their name. Much research has shown that country-of-origin (COO) affects consumers' perceptions of brand image and consumer behaviour (Hong and Wyer 1995; Peterson and Jolibert 1995). 'Made in China' has typically been perceived as being 'cheap' and of 'low quality'. Therefore, one would postulate that in order to establish a global brand, reference to China might not help with global ambitions. According to Hulland (1999) the source country of brands can be seen as an important determinant of brand choice. Given China's reputation as the 'workshop of the world' it is difficult to find anything these days that is not produced in China. Although many of the world's top global brands such as Nike, Nokia and Gap are produced in China and other developing countries, consumers often view these brands based on the origin of the brand, as opposed to the country of manufacture. Recently the ‘Made in China’ label has proven somewhat of a headache for marketers of Chinese brands. An article in Business Week (September 24th, 2007) highlights this by stressing that “after a year of massive toy recalls tainted toothpaste scares, and poisonous pet food incidents, consumers around the globe are thinking twice—or more—before buying Chinese-made goods.” Indeed, in a new survey of marketing and business professionals worldwide, 69 per cent of respondents said the phrase ‘Made in China’ hurts mainland brands. The word most frequently associated with Chinese products? ‘Cheap.’

In order to penetrate the list of the world’s leading brands, China needs to try and shed the negative aspects associated with the ‘Made in China’ label. Even China’s East Asian neighbours have brands featured in the Interbrand Top 100. Japan has eight brands listed (positions in brackets), Toyota (6); Honda (19); Sony (25); Canon (36); Nintendo (44); Panasonic (78); Lexus (92) and Nissan (98), while The Republic of Korea has three brands listed – Samsung (21); Hyundai (72) and LG (97). These Japanese and South Korean companies made the transition from national to global brands; however, this took some years to achieve.

The development of Chinese brands has received limited attention from researchers (Fan, 2006). Therefore, this study intends to address this by exploring reasons behind a lack of truly global Chinese brands, and determine the steps Chinese firms need to take in order to achieve global brand status. In sum, the nature of this research project is to examine the internationalisation and global brand development of Chinese firms. As reflected in the title, a case study approach will be adopted. In other words, analysis will include the existing internationalisation and global branding activities of three Chinese firms – *Lenovo, Huawei and Alibaba Group.*

Comment [PW9]: A clear purpose statement.

This research draws on my own experiences having worked for the Chinese government travel firm - China Travel Service (CTS), completed a PhD into UK – Chinese joint venture performance, and made more than twenty trips to China. Also, my wife is from Beijing, and has many business dealings with companies based on the mainland and in Hong Kong. Therefore, I have first hand knowledge of China and am well aware of the limitations faced when conducting research into China's development.

1.3 Objectives of the study

The main objective of the proposed research is - *to better understand the internationalisation and global brand development of Chinese firms. The aim is to not only evaluate internationalisation and the reasons China lacks a truly global brand, but also analyse what types of strategies Chinese firms need to take in order to achieve 'global brand' status.*

The objectives for this study are as follows:

- Understand what motivates Chinese firms to internationalise
- Examine the internationalisation strategies adopted by Chinese firms
- Determine the reasons behind China's lack of truly global brands
- Examine the strategies Chinese firms need to adopt in order to develop global brands

The main research questions to be addressed are:

- Why do Chinese firms decide to internationalise?
- What internationalisation strategies do Chinese firms adopt?
- Why doesn't China currently have a major global brand?
- What strategies do Chinese brands need to adopt in order to achieve global brand status?

Comment [PW10]: A clear set of objectives and research questions.

This study follows a mixed-methods approach by analysing both qualitative and quantitative data. Its intention is exploratory in nature, aimed at advancing tentative propositions rather than drawing generalised inferences (Child *et al.* 2003). Quantitative analysis of relevant statistics governing internationalisation and Chinese brands is examined, along with qualitative findings from selected case studies. Typical sources include that of the Ministry of Commerce of the People's Republic of China (MOFCOM) and the leading consultancy firm McKinsey & Company.

1.4 Layout of the study

This study firstly reviews the literature on internationalisation theory and the internationalisation process of Chinese firms. There has been much research on internationalisation process theory, although this has tended to focus on Western firms. The second part of chapter two focuses on the nature of branding, adaptation and standardisation and Chinese global branding strategies. The third chapter discusses the methodology and provides examples of the wide range of secondary sources consulted for the study. Next, chapter four analyses the internationalisation and global brand development of Chinese firms. In addition, the internationalisation and branding activities of Lenovo, Huawei Technologies and Alibaba Group are examined. The last chapter summarises the findings and makes recommendations from a theoretical and management perspective. A conceptual framework is proposed that incorporates global brand development and internationalisation. Finally, limitations and future areas of research are examined.

1.5 Usefulness of the study

This study fills a gap that provides a worthwhile contribution to both practical and theoretical application:

- It will give Chinese firms a better understanding of branding and global brand development
- It can be used as a benchmark by Chinese firms considering entering international markets
- It will provide answers to the necessary measures needed to internationalise

- It contributes to existing internationalisation theory by considering it from a Chinese perspective
- There is currently very little research into Chinese brand development and internationalisation

CHAPTER TWO: INTERNATIONALISATION AND BRANDING

2.1 Introduction

The attitude of the Chinese authorities towards the internationalisation of Chinese enterprises has drastically changed overtime. Before 1985 the Chinese government devoted little attention to the development potential and the implications for their economy of the internationalisation of Chinese enterprises (Zhang and Van Den Bulke 1996). However, in recent years an increasing number of Chinese firms have invested beyond their domestic market. This chapter begins by discussing the different types of internationalisation theory, in particular – ‘stage models’ and ‘Born Global’. Next, the internationalisation process of Chinese firms is examined, along with how State Owned Enterprise (SOE) reform and market liberalisation have helped Chinese firms ‘break free’ to compete in international markets. Finally, this chapter discusses the nature of branding and reviews the branding challenges Chinese firms need to tackle in order to achieve ‘global brand status’.

2.2 Internationalisation theory

According to Zhang (2003: 701), internationalisation is a troubled concept. Defining internationalisation is therefore more problematic than controversial. Zhang goes onto explain that definitions of internationalisation can be viewed in terms of different political, economic, cultural, and social contexts, and that national and international perspectives differ sharply. Internationalisation can be viewed from different levels and contexts. First, the *world economy*, second, the *state*, and third, a *firm* is said to have been internationalised when first it organises and conducts

Comment [PW11]: Examples of other definitions?

multiple value adding activities across national boundaries (Dunning 1993). For this particular study, it is the latter interpretation of internationalisation that will be analysed. In other words, internationalisation will be viewed from the organisational level – the internationalisation of Chinese firms.

Internationalisation is a synonym for the geographical expansion of economic activities over a national country's border (Ruzzier *et al*. 2006: 477). The dominant charge in the world economy over recent decades is the globalisation of markets (Levitt 1984). Today, firms are internationalising in greater numbers than ever before. Therefore, internationalisation theories that can provide guidance to firms are more critical than ever before. However, many of the existing theories may not be applicable to companies from new emerging market economies (EMEs) given the economic, social, political differences that exist within these markets. Companies are internationalising in more different ways, after using combinations of entry and exit strategies (Axinn and Matthyssens 2001: 436). Although some internationalisation theories reflect these changes by focusing on different types of market entry strategies and the influence of different sectors, many of these theories have been developed by Western researchers (e.g. Uppsala Process Model, see 2.2.1). The application of these theories tends to produce empirical findings that relate to largely 'Western' cases. Western firms are affected by a different set of micro and macro level features to their Chinese counterparts. Therefore, Western internationalisation process theories can be described as 'emic' in nature. Usunier (2000: 212), describes emic as "the emic approach holds that attitudes or behavioural phenomena are expressed in a unique way in each culture", while the same author defines etics as “the etic approach on the other hand, is primarily concerned with identifying universals.” In other words, internationalisation theories proposed by Western researchers are culturally specific to firms originating from Western countries, as opposed to ‘etic’, theories that are culturally universal and can be applied across a range of cultures.

The next section discusses two of the most well known existing internationalisation theories – ‘Stages Models’ and ‘Born Global’.

Comment [PW12]: Why are these important?

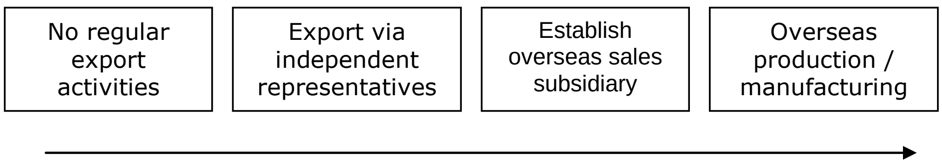
2.2.1 Stages Approach

A number of theories exist in relation to internationalisation process. For example, a firm’s decision to enter international markets can be viewed as a gradual sequential process associated with several stages of internationalisation (Johanson and Vahlne 1990). Internationalisation is viewed as a resource acquisition and learning process. For example, some authors (Johansen and Vahlne 1977) argue that the internationalisation process of firms can be divided into different stages with different degrees of market and resource commitment, as well as control. Based on their research into Swedish companies, the authors found that firms usually develop their international operations through a series of small sequential steps. Two key aspects of the model are knowledge and commitment demonstrating that knowledge obtained from the foreign markets drives the decision to commit more resources to those markets.

Comment [PW13]: A rather dated source.

This stages approach to internationalisation suggests that firms may gradually develop their overseas operations by consecutively using direct export, a local agent, a sales office or commercial subsidiary, licensing, a technology or management contract, subcontracting, joint equity investment in a production subsidiary and wholly-owned production subsidiary. Several stage model theories of internationalisation assume that firms with no permanent exports subsequently export via an export agent, then through a subsidiary and finally producing in a foreign subsidiary. Alongside these entry modes are alternatives including joint ventures, franchising, networking, licensing, piggy-backing (i.e. sub-contracting) etc. (Westhead *et al.* 2004: 10). Perhaps the most well known of these stages models is the Uppsala Process Model (Johanson and Vahlne 1977). Like many stages models the theory proposes that a firm will move through a series of stages overtime (figure 2.1). These stages follow a sequence of low to high levels of internationalisation.

Figure 2.1: Uppsala Process Model (Johanson and Wiedersheim 1975; Johanson and Vahlne 1977)



Yet, other authors (Lecraw 1993: 593) recognise that the stages approach to internationalisation does not necessarily apply to firms from developing countries. To be sure, the gradual approach to internationalisation does not apply to many Chinese organisations. An obvious illustration of this is Lenovo's 'fast track' approach to internationalisation, largely a result of its acquisition of IBM's PC business. Another limitation of the stages approach is that it treats internationalisation as a 'one size fits all' and does not take into account macro environmental issues, the size of organisations, and technology (e.g. the influence and role of the internet in internationalisation). Nevertheless, certain types of organisations such as Small Medium-Sized Enterprises (SMEs) may adopt a stages approach as a low risk strategy to internationalisation.

2.2.2 Born Global

In addition to a stages approach to internationalisation, some companies 'leap frog' stages, while some may be 'Born Global'. Knight (1971), defined Born Global as "a company which, from or near its founding, seeks to derive a substantial proportion of its revenue from the sale of its products in international markets." A company that is internationalised right from the start is often referred to as Born Global (Knight and Cavusgil 1996; Rennie 1993).

Hollensen (2004: 69) cites the following factors giving rise to the emergence of Born Globals:

- *Increasing role of niche markets* – A growing demand among customers and increasing worldwide competition means many small firms have no choice but to specialise in a narrow market niche.
- *Advances in process/technology production* – New technologies allow small companies to achieve comparable footing with large multinationals in the production of sophisticated products for sale around the world.

- *Flexibility of SMEs/Born Globals* – SMEs are more flexible and quicker to adapt to foreign tastes and international standards.
- *Global networks* – Inexperienced managers can improve their chances for succeeding in international business if they take the time to build mutually beneficial, long-term alliances with foreign partners.
- *Advances and speed in information technology* – With the invention of the internet and other telecommunication aids such as mobile phones, email and other computer-supported technologies such as electronic data interchange (EDI), managers even in small firms can efficiently manage operations across borders.

Comment [PW14]: A more critical approach could have been adopted here.

Typical characteristics of a Born Global tend to be SMEs, relatively young companies, entrepreneurial and competing in the technology sector (Oviatt and McDougall 1994). The authors argue that in some cases firms develop global coverage from the outset, rather than passing through a series of stages. In his study of Born Global among Norwegian firms, Moen (2002: 158) argues that firms are either Born Global and remain global or they are primarily local and can be expected to remain local. Though, this view does not necessarily relate to some Chinese OEMs. Many OEMs perhaps started out as largely supplying China's domestic market, yet following China's reforms now find themselves serving mainly international markets. The author goes on to suggest that the original Uppsala Process Model does not seem to explain the export behaviour of the Born Global firms at the time of the firm's formation.

Comment [PW15]: More contemporary sources?

Similar to stages models, it is clear that in certain circumstances, Chinese firms do not always 'fit' into these Western models. When considering the stages model and its applicability to Chinese firms it is apparent that many do not pass through a gradual sequential process. For instance, dot.com companies such as China's Baidu.com enjoy global coverage from the outset. The likes of Baidu.com can perhaps be described as Born Global. However, both the stages model and Born Global do not apply to all types of Chinese firms. For example, family run businesses are common both in China and among Chinese diaspora. Many of these firms are engaged in exporting to international markets, raise capital on foreign exchange markets and have begun developing their brand beyond China. An illustration of this is the Beijing based family run firm - Sunrise Technologies. The company recently floated on the UK's Alternative Investment Market (AIM) in order to raise much needed capital to develop and promote its Mulberry Tea brand beyond China.

Comment [PW16]: Good.

Comment [PW17]: Well done for including relevant case examples.

China's development indicates that the current body of literature on internationalisation theory is inadequate when explaining internationalisation in a Chinese context. Yet, prior to developing a conceptual framework that may be applied to the internationalisation of Chinese firms, it is important to understand their current internationalisation process. The next section now addresses this point.

Comment [PW18]: Evidence of a possible gap in the literature.

2.3 Internationalisation process of Chinese firms

Since the late 1980s, the Chinese government has not simply put its effort into exporting 'Made-in-China' products to earn foreign currency or into encouraging foreign inward capital. In fact, it has actively encouraged its manufacturers to invest overseas, and has deliberately and strategically organised Chinese transnational activities (Wang 2002: 187). So far, there has been little research into the internationalisation of Chinese firms. One of the few studies into this area is that of Zhan (1993). According to the author, key reasons for the internationalisation of Chinese firms are access to foreign markets and a stable supply of resources. The latter is certainly true. China's rapid economic development is driven by its increased consumption of natural resources such as oil and coal. This is one reason why Chinese firms are increasingly investing in the likes of Nigeria, Africa's largest oil producer. For example, in 2006, China National Offshore Oil Corporation (CNOOC) Ltd paid US$2.3 billion for a stake in a Nigerian oil and gas field (www.chinadaily.com).

Perhaps the main reason for the growing internationalisation of Chinese firms is the country's accession to the WTO in December 2001. Because of trade and investment liberalisation under WTO, there will be greater competition between Chinese and foreign firms, both inside and outside China (Agarwal and Wu 2004: 297).
However, given the growing interest in internationalisation, the vast majority of current literature in to China's rapid economic development pays attention towards FDI. China's 1978 open-door policy and later accession to the WTO have helped the country become the world's largest recipient of FDI. Child and Lu (1996) attribute China's rapid economic development to the transformation from a centrally planned economy towards a market system and the opening of the economy through the 'Open Door Policy'. Since the Open Door Policy was installed during the late 1970s, China has become a highly attractive market for foreign companies. There has also

been significant growth in foreign trade. In 1997, China's foreign trade reached US$325.1billion, which was 14.8 times higher than 1978, ranking China tenth in the world (Reuvid and Li 2000).

Post-WTO the Chinese government has instigated a number of reforms. There are three fundamental reform processes that the China's central government has adopted and is likely to continue: marketisation, decentralisation and privatisation (North 1990). First, marketisation has led to increased competition through the development of private enterprises and foreign firms accessing the Chinese market. Second, decentralisation relates to much of previous central government roles and responsibilities being transferred to provincial government. Finally, privatisation relates to the stress on the increasing privatisation of formerly state owned enterprises and the development of new private enterprises. Combined, these reform processes have contributed to China's economic development.

Although much of China's economic growth can be attributed towards FDI, the reform of SOEs and China's growing private sector organisations also play an important role. At the 15th National Congress of the CCP in 1997, Zhu Rongji announced a new strategy of SOE reform, which was called 'grasping the big and letting go the small'. Grasping the big meant developing large enterprise groups, particularly internationally. While 'letting go the small' meant the government off-loaded SMEs to operate based on market forces. Government officials used political and administrative ways to merge enterprises, this created large monopolistic companies that often had fully control of the supply chain. Although large, these conglomerates did not have strong competitiveness and lacked market focus. Large assets such as manufacturing plants, property and equipment were assembled by the state. Large SOEs such as oil companies SinoPec and PetroChina have developed joint ventures with Western companies. This is in order to gain technological expertise, financial input and much needed marketing support. Yet, these large State enterprises still lack the marketing orientation of their Western counterparts. For example, while the likes of BP enjoys profits of £13.4 billion for the first half of 2008, PetroChina faces the prospect of losing about $18bn on its refining business if the price of crude oil remains at its present level. The reason for this is that Chinese refiners have been unable to pass soaring oil prices on to consumers because the government imposes price controls on petrol and other refined products. The Communist Party is obviously putting ‘People’ before ‘Profit’ by subsidising the price of petrol for the benefit of Chinese consumers. Despite the waves of reform measures directed toward them, China’s SOEs have proven stubbornly resistant to market forces and frustratingly devoid of market-orientated behaviour (Steinfeld 2000: 2). This is a key factor that is likely to hinder the internationalisation of many Chinese SOEs.

On the positive side, SOE reform has provided some firms with greater autonomy concerning management decision-making, engaging in joint ventures with foreign companies and in general, greater marketing orientation. Although many of China’s SOEs lag behind their foreign competitors when it comes to marketing expertise, many are actively engaged in Sino-foreign joint ventures, thereby learning how to deal with issues such as customer service, brand loyalty and research and development.

There is no doubt that market liberalisation has meant that Chinese firms have had to learn quickly in order to compete with their foreign counterparts. Given the size of the China market, these firms may be able to leverage this domestic market power to expand internationally, a strategy that has proved to be effective among newly emerged Asian firms such as Taiwan's Acer and South Korea's Lucky Gold Star (Tse and Child 2001: 13). The speed at which Chinese firms can become global players depends on the enhancement of domestic resources and support systems, especially in human competencies, technology and professional and consulting services. The lack of these services has inhibited the ability of Chinese firms to internationalise and to close the gap with multi-national enterprises (Nolan 1999).

Although market liberalisation has brought benefits to Chinese consumers by providing more choice, for Chinese firms it has meant that they have to find ways to compete with foreign competitors in their own backyards. Perhaps there is no greater evidence of this than in the food retail sector. The likes of retail giants Wal-mart and Carrefour have made significant inroads into the Chinese market. Their ability to compete on price through economies of scale means that Chinese supermarkets have found themselves losing market share in some urban centres. It is perhaps the difficulty facing Chinese firms in their domestic market, along with the increasing attractiveness of a growing middle class audience that have resulted in a dearth of Chinese firms developing their own brands in international markets. If

China is to compete in its domestic market, perhaps the ‘best weapon’ it has against foreign brands is national brand loyalty and focusing on Chinese national values.

In general, China remains a very nationalistic country. Although consumers often recognise foreign brands as being of superior quality, in cases where foreign brands or individuals criticise China, an underlying feeling of nationalism can often seriously damage the reputation of foreign brands. A good example of this is the case of Sharon Stone and her comments in May 2008 that the Chinese earthquake was ‘bad’ karma for its handling of Tibet. This ultimately resulted in a huge public backlash in China. Stone’s films were banned in many cinemas, along with her Christian Dior fashion range being dropped from many stores. Although Christian Dior is a popular designer brand among many of China’s growing middle class, this nationalist undertone illustrates the damage that can be done to foreign brands if they step out of line. To be sure, Chinese nationalism can be a positive factor for Chinese firms when targeting consumers in their domestic market, however, the association with China, or in other words ‘Made in China’ label has perceived negative connotations for some consumers in international markets. This is just one issue many Chinese firms need to confront when considering their internationalisation process. Still, as far as its domestic market is concerned, Chinese firms can certainly do more to attract Chinese consumers by concentrating on national values. A good example of this is the Chinese sportswear company – Li Ning. Founded by China’s former leading gymnast in 1988, the company is now the top sports brand in China, which sells 50 per cent more in revenue terms than Nike, which is the number two, with Addidas, a close third (www.peopledaily.com). The company’s founder – Li Ning, and his

Comment [PW19]: An interesting case example.

reputation as China's 'Prince of Gymnastics', certainly plays on the national loyalty aspect of the brand.

As well as playing the 'nationalism card', Chinese firms can increasingly look towards government support to aid their competitiveness both at home and abroad. Foreign firms have seriously affected the competitiveness of Chinese firms. Figures published by MOFCOM highlight the increasing number of acquisitions and mergers involving foreign firms in China. So much so, that the Chinese government has introduced measures to protect industries deemed to be of national security. For example, in August 2007 the Standing Committee of the National People's Congress (NPC) passed an Anti-Monopoly Law. This was a result of foreign company's acquisitions of major SOEs and/or Chinese brands. Foreign firms now need approval from the Chinese Ministry of Commerce if their purchase is perceived as affecting China's national economic security.

Thus far, this section has looked at China's reform, in particular market liberalisation. The ability of Chinese firms to compete in their domestic market has been addressed, along with a focus on how national loyalty and government protectionism can aid those organisations engaged in strategically important sectors such as telecommunications and banking. Yet, given the problems of competing at home, China's accession to the WTO has also provided the platform for some firms to venture into international markets. According to Yang *et al.* (2007) the internationalisation of Chinese firms can be divided into three major historical stages:

1. Stage one: 1978 – 1990 – The major demarcation for internationalisation of Chinese firms came when the Chinese government clearly established its Open Door policy in 1978. Main international activities involved construction and engineering firms setting up subsidiaries to bid for overseas project contracts and exporting labour. In this phase, the Chinese government only granted permits to large state and provincial trading houses to set up overseas operations. Many FDI projects were poorly managed and under performed.

2. Stage two: 1991 – 2000 – This period marks the first wave of Chinese firms starting initial international expansion. MOFTEC started formalising administrative measures on outward FDI projects. Many firms started international expansion in 1996. The number of overseas Chinese subsidiaries reached 5,356 dispersed across over 140 countries by the end of 1997. Capital raised through highly published Initial Public Offering (IPOs) gradually allowed transnational mergers and acquisitions to become the main form of Chinese outward foreign direct investment and, in the process, led to further privatisation of SOEs.

3. Stage three: 2001 – present – The acceleration of overseas expansion activities in the form of mergers and acquisitions. It is believed that such an acceleration of internationalisation can be partially explained by the perceived onslaught of foreign competition in China after China's entry to the WTO in 2001. In 2004 alone, Chinese firms engaged in 13 cross-border M&As, including Lenovo's acquisition of IBMs PC division at US$1.75 billion as a response to the government policy to go global (Liu 2007).

Comment [PW20]: A critical approach could have been adopted here. Are there only three stages?

The attitude of the Chinese authorities towards the internationalisation of Chinese enterprises has drastically changed over time. Prior to the mid-1980s the Chinese government devoted little attention to the development potential of Chinese enterprises. Reasons for this can be attributed to SOE reform and government's focus on developing China's domestic market. A key feature of course was emphasis on encouraging foreign direct investment. Yang (2007) makes a comparison between Japanese and Chinese firms when it comes to internationalisation by commenting that those Chinese firms that have the intention to internationalise need to acquire a strong foothold in the domestic market as Japanese firms did. The author stresses that by doing so will allow them to build brand recognition, and formulate investment strategies, as well as acquire the necessary organisational, financial, strategic, and technological capabilities needed to compete successfully in the global market.

While China's success in attracting inward FDI has been well documented, there currently exists a dearth of literature towards China's 'going out' strategy (Hong and Sun 2006: 610). A key feature of China's internationalisation process has been its proactive approach towards mergers and acquisitions (M&A). According to the Boston Consultancy Group (BCG), since 1986 China has started four waves of M&As. The first wave lasted around a decade and focused on offshore investment. The second took place during the 1996-1999 period and was triggered by Hong Kong's return to China; enterprises began switching their attention to overseas expansion. Starting in 2000, the third M&A wave highlighted domestic expansion and Chinese companies engaged in joint ventures buying their foreign partner's share. Since most of these joint venture contracts expired at that time. BCG goes onto suggest that the last wave of M&As (post WTO entry – December 2001) is largely a result of China's need for natural resources. For example, mining and energy are sectors of national strategic importance given China's rapid economic growth. Therefore, government is keen to develop China's resource allocation through the acquisition of foreign companies engaged in these sectors.

Although there has been clear consolidation in some of China's domestic markets, China has also been proactive in mergers and acquisitions with foreign brands. Why China's recent interest in M&As? Evidence suggests that the acquisition of foreign firms allows Chinese firms to tap into established supplier networks, technical expertise, marketing knowledge and established brands. In general, the world is experiencing an increasing number of global mergers and acquisitions, increasing activity, and increasing trade within and between trading regions. The value of annual merger and acquisition activity has risen from $72.8 billion in 1981 to $141.9 billion in 1991 to over $1.4 trillion in 1999 (Mergers & Acquisitions).

The major explanation for China's increased M&A activity includes overcoming the low brand value of Chinese products (Hong and Sun 2006: 629). Mergers and acquisitions now make up the main form of China's outward investment. The value of cross-border M&As experienced a 17-fold increase between the years 1990 and

2002, jumping from $60 million to $1.04 billion (MOFCOM, 2005). In order to acquire key strategic assets, acquisition has been used increasingly, as evidenced in high-profile deals such as Lenovo's purchase of IBM PC business in 2004 and Haier's unsuccessful bid for Maytag in 2006 (Fan 2008: 356). The Chinese government is the driving force behind these mergers and acquisitions. Many of China's leading firms are SOEs that are guided by government policy. The Chinese government adopts a selective support strategy and particularly encourages 22 strong companies to engage in outward FDI. The primary goal of this action is to develop the chosen firms into globally competitive multi-nationals, either by joining the ranks of the Global 500 or by building international brands (Deng 2007: 73).

Buckley *et al.* (2006) identify three broad categories of investment strategy adopted by the Chinese multinationals, namely market seeking, resources or asset seeking and efficiency seeking strategies. First, market seeking can be interpreted as improving market coverage, building market share and generally entering growing markets. Second, resources or asset seeking can be interpreted as acquiring resources or assets such as capital equipment, skilled staff, and technical expertise largely through mergers and acquisitions. Finally, efficiency seeking strategies could be interpreted as benchmarking, total quality management (TQM) and investment in new facilities. Yet these strategies do not include market entry options. As mentioned, the stages model theories are mainly based on market entry methods. Currently many Chinese firms are OEMs and actively involved in exporting. An important part of the internationalisation process remains choice of market entry. Although M&As are increasing in popularity they are not without both advantages

Comment [PW21]: Nice to see evidence of a critical approach.

and disadvantages. Table 2.1 highlights some of the advantages and disadvantages Chinese firms such as Lenovo are likely to experience as a result of merging/acquiring foreign firms.

Table 2.1: Advantages and disadvantages to Chinese firms through acquiring foreign companies

Advantages	Disadvantages
Often buying into an established brand name.	Possible negative public relations (PR) from stakeholders.
Access to supplier networks	Potential job losses leading to negative PR.
Increased international market coverage	Difficulty coping with different national and corporate culture
Acquisition of a highly skilled workforce	Elements of protectionism as well as other threats from government.

Source: Author's own work (2008)

Comment [PW22]: Well done for making clear this is your own work.

Although Chinese companies such as Tsingtao and Haier are building their brand names abroad, other Chinese firms have turned to acquisitions and alliances as a faster and cheaper way to develop their brands. For example, TCL's acquisition of German electronic-appliance maker Schneider), taking over customers with whom they have done business as an OEM (for example, Techtronic's purchase of Cleveland-based Royal, manufacturer of the Dirt Devil and Royal brands), or via an alliance with a branded manufacturer (for example, TCL's majority ownership of a joint venture embedding Thomson’s TV business with its RCA mark) (Shenkar 2006: 158).

According to MOFCOM mergers and acquisitions by Chinese companies in foreign markets witnessed a growth rate faster than its impressive 9.9 per cent economic growth in 2007 (www.MOFCOM.com). However, the government recognises that China’s share of overseas investment (0.5 per cent) is very small of overall global foreign direct investment. One of the reasons for China’s lack of progress in outward FDI is its understanding of the global market, along with protectionism by some national governments. For example, in 2005 China National Offshore Oil Corporation Ltd withdrew from a widely watched bid for US oil company Unocal Corporation, largely as a result of strong political opposition from the US Congress (www.MOFCOM.gov.cn).

In sum, an increasing number of Chinese firms are turning to internationalisation. For many firms, particular some of China’s large state-run enterprises, the internationalisation process appears to be ‘fast track’. Firms are ignoring a gradual approach to internationalisation, through the acquisition or merger with strategically important foreign organisations. Also, in the majority of cases, government plays an important role in the internationalisation process. This is certainly true of large SOEs. As a result, it is difficult to see how existing internationalisation theory can be applied to Chinese firms. At present, a definitive theory does not exist that applies to all areas of internationalisation. Another criticism of the existing body of literature is that it is largely a product of Western researchers and modelled on Western firms.

For example, the Uppsala Process model was developed by a group of Scandinavian researchers and has been largely applied in a European context. This model can be described as emic in nature. In other words, it is culturally specific to Western firms. Chinese firms display different characteristics to their foreign counterparts, not least their Communist background and the role and influence of government.

2.4 The nature of branding

The multinational marketing and advertising group Ogilvy & Mather defines brands as "The way a consumer feels about a product or service, or the company or institution behind it."

Comment [PW23]: Other definitions?

According to Brahm (2002: 50) "While it is tempting to think that foreign marketers possess an advantage in the area of brand communications, rising quality standards and heavy ad spending by local companies have created a handful of powerful Chinese brands such as Haier, Tsingtao, and Little Swan, among others".

According to Randall (1994: 86), in building and maintaining brands, the critical success factors are five:

1. *Quality*: Customers and consumers are well able to tell what works and what does not in practice; they will choose what works best and gives value for money.

2. *Differentiation*: Consumers must be able to distinguish it from competing products; frequently users are prepared to pay more for a brand, or to search it out.
3. *Consistency*: is the hallmark of great brands such as Persil or Mars; frequent change will only confuse buyers; this does not mean standing absolutely still.
4. *Evolution*: is essential to keep up with changing markets and needs; Fairy Liquid has been consistent in claiming and delivering quality, but has changed its platform steadily over the years.
5. *Support*: in consumer brands, this means consistent, heavy advertising support; for business brands it may mean heavy R&D or highly trained sales people giving extensive consultancy support; for services it may mean real commitment to staff training; re-investment of profits is essential.

Comment [PW24]: This section is rather descriptive.

While many Chinese firms need to work hard in addressing each of the above five points. Arguably, it is quality and support that are perhaps the most important. As already mentioned, Chinese brands are sometimes perceived by consumers as being of inferior quality, therefore Chinese firms need to rectify this image by investing in research and development. Support, particularly investment in global advertising and other forms of marketing communications is required if Chinese firms are to increase their levels of brand awareness in global markets. The Chinese themselves are very brand conscious, a legacy of Confucian hierarchy and of their imperial past where rank was prominently displayed on bureaucrats' clothing. Chinese producers seek to escape the low-end segment of the market on its razor thin margins, ever-increasing price pressures by global buyers, and intense competition on the part of both foreign and domestic producers – including new entrants that appear in the market almost daily (Shenkar 2006: 157).

Keller (2000) 'The Brand Report Card', suggests the following ways to build a strong brand:

1. The brand excels at delivering benefits stakeholders truly desire.
2. The brand is clearly differentiated from others.
3. The brand stays relevant to its stakeholder overtime.
4. Managers responsible for brand related deliveries and actions understand what the brand should mean to stakeholders.
5. The stakeholders' experiences with the brand are consistent.

Of the above points, it is perhaps the second one – "the brand is clearly differentiated from others" that some Chinese firms have a problem with. China continues to be the world leader in intellectual property right infringement (IPR). The majority of global brands lose millions of dollars each as a result of counterfeit goods originating and being marketed in China. In other words, in some cases companies appear to prefer to 'ride on the success' of existing global brands, rather than develop their own. The main reason for this is cost. It costs a huge amount of money to develop a brand. However, since WTO entry, the Chinese government has made some progress in tackling IPR infringement. It also now recognises the importance of branding. In 2001, China's consumer quality watchdog (the State Administration of Quality Supervision, Inspection & Quarantine, or AQSIQ), promulgated regulations on the appraisal and management of state-level top brands. Under its aegis the State

Commission for Brand Promotion (SUBP) was set-up in 2002; to focus on the role government was to play in pushing forward the national branding strategy (Fan 2006: 369).

2.5 Adaptation and standardisation

A key aspect of international branding is whether or not a firm decides to adapt or standardise its brand. In reality, the majority of global brands such as Coca Cola, McDonald's and Nike tend to standardise not only their brand, but the majority of their marketing mix (product, price, place and promotion). Usually a major factor influencing firms when it comes to deciding on adaptation is the extent the foreign market is culturally distant from its home market.

Comment [PW25]: Why?

Hofstede (1980) has researched the nature and extent of cultural differences. He conceptualises "culture" as the "collective programming of the mind". As individuals grow up in any culture their assumptions about the way a society should be organized are instilled into them. These taken-for-granted assumptions are rarely questioned, unless perhaps there is contact with another culture, which operates on different or incompatible assumptions. In pursuing the implications of his research, Hofstede (1980, 1983, and 1993) has shown that certain management practices can be compatible, and others incompatible, with the culture of a society, and has further suggested that cultural incompatibility undermines the successful transfer of managerial practices from developed countries to developing countries.

Although Hofstede provides seminal work in relation to the scope and size of his study into cultural aspects, some researchers are critical of his work. For example, Tayeb (2001) argues that it is impossible to attribute cultural characteristics to a nation. The author stresses that in many respects elements of Hofstede's study exist in all of us. For example, in the individualist UK a tragedy befalling a school in a small town brings the best of community spirit in all the citizens up and down the country. Second, many Scottish people, although regarded as being highly individualistic, very much 'pull together' when being active members of a trade union. Perhaps a criticism of Tayeb's view is that China is a highly homogenous society; therefore there are clear cultural similarities, particularly in relation to Confucian values. Also, Chinese firms still need to be aware of cultural differences and possible pitfalls when trying to establish a global brand.

Comment [PW26]: Nice. Important to be critical here.

A key cultural issue for Chinese brands when considering internationalisation is the translation of the brand name in order that it is compatible for international markets. He Chunsheng (1997: 182) highlights the problems that Chinese firms face when translating their brand names into English.

"The Bai Xiang battery produced in Shanghai enjoyed a good reputation in international markets; however, in 1976 the company management translated it into an English brand name – White Elephant. In Britain, sales dropped dramatically and the company did not know why. Later someone pointed out to the management that White Elephant does not refer only to an elephant that is white in its colour; in

English it also means a costly but useless thing. Nobody will buy a commodity that is costly but useless."

According to Usunier (2002: 330), international companies face three situations in terms of international brand names:

1. The *ex nihilo* creation of a brand name, especially for new products with high global potential. The name must be pronounced and understood in a similar way across diverse linguistic and cultural contexts.
2. The management of a large brand portfolio resulting from external growth by acquisitions of local players and multiple layers of branding. Such a brand portfolio is increasingly being managed by means of simplification, in order to avoid spreading brand advertising budgets too thinly over large a number of names; few of these names would become transnational brands. The appropriate course of action is then to nominate the best applicants in translinguistic terms, taking into account local brand equity and the attachment of both local consumers and local marketing teams to brands – which often have a rich history.
3. Assessment of the potential for an international extension of regional brands developed by a subsidiary in the lead country for a region.

Chinese firms do not appear to adopt one particular overriding method cited by Usunier. To be sure, an example can be provided for each approach. For instance, many companies such as Lenovo are starting to use English in their brand names in an attempt to improve quality perceptions and create an international image (Webb 2001).

There is an interaction between the nation brand and its corporate / product brands, with each complementing the other. Brand France and French brands are good examples to illustrate these dynamics. France, as a nation brand has a strong image in the internationalisation stage: the Eiffel Tower, the language, French perfume, nouvelle cuisine all contribute to an image of a romantic and culturally inclined nation (Lou and Davies 2006). Many international brands have a basic credibility, which is based on a national image. Accordingly, Coca-Cola is a typical American drink; Marlboro (cigarettes) is in fact an American brand because of the Marlboro cowboy. Chanel No.5 is based on the image of French luxe and haute couture, conveyed by the character Chanel. Buitoni is understood as Italian pasta and Johnny Walker is a synonym for whiskey from Scotland (Usunier 2002: 339).

Comment [PW27]: Good.

The challenge for China is how to emulate the likes of France, Germany and its Japanese neighbour by developing a well recognised, established country brand that portrays a positive image. China has a legion of well-established domestic brands such as the ‘Flying Pigeon’ Bicycle maker and ‘White Rabbit’ candy. Yet these brands have yet to fully penetrate international markets. Given China’s association with bicycles, perhaps Flying Pigeon is best placed to achieve this. The company is now taking a marketing orientated approach having introduced a range of more than 300 models (www.chinadaily.com). However, one has to question the appeal of a product named ‘Flying Pigeon’ to UK consumers!

In the minds of many Westerners, products manufactured in the West are better than those made in China. It should be noted that some brands from other parts of the Far East, such as Japan and South Korea, have of course succeeded in establishing a strong reputation for quality in the West (Melewar *et al*. 2003: 456). However, as cited in the introduction, in order to be successful, Chinese firms need to overcome the COO effect. It can be defined in several ways, including in terms of country-of-design, country-of-assembly, and country-of-corporate-ownership (Li *et al.* 2000). Yet, essentially it relates to country of manufacture. Compared to studies in the West, only a limited amount of research has directly examined the COO effect in relation to China (Kwok *et al.* 2006: 164). Although in general, perceptions are often of poor quality at cheap prices.

Few Chinese manufacturers have succeeded in establishing global brand names of their own despite extensive experience in producing for many of the world's most famous brands. Other than a few exceptions, such as Haier (white goods), TCL (TV and mobile phone) and Lenovo (computer), most Chinese brand names are unknown outside of China. Chinese firms have taken to buying foreign brands rather than launching their own brands in international markets. However, there are exceptions, although these have tended to fair badly. For example, the first Chinese branded car introduced to the German market was called 'Land Wind'. Due to its badly failed crash test conducted by ADAC (The German General Automobile Club), the Chinese became a target of derisive press reports just as did Korean and Japanese cars before.

Finally, like the majority of global brands, Chinese firms are likely to standardise the majority of their marketing mix. Though it is the extent that a brand name is adapted that is perhaps the biggest dilemma for Chinese firms. Cultural problems associated with perception and pronunciation will continue to make adaptation vis-à-vis standardisation decision-making difficult.

Comment [PW28]: Why?

2.6 Chinese global branding strategies

According to Meyer and Tran (2006) when entering international markets, new entrants need to consider the following branding strategies:

1. Global branding – global brand with little or no adaptation, positioned as premium brand;
2. Local branding – portfolio of local brands, positioned to serve mass markets; and
3. Multi-tier branding – portfolio of global, local, and brands positioned to serve different segments of the market.

A simple geographic extension of existing brands is favoured by many global brands (global branding). This is in line with Levitt's (1984) view of standardisation. Perhaps the nearest Chinese brand that follows a simple standardised extension of its existing brand is Tsingtao beer. The brand uses the same brand name across all markets and has extensive market coverage. Essentially the product is the same; the packaging is largely the same (although adapted by including English on the packaging). It is also priced towards the premium end of the market. Obviously pricing is more expensive in the UK. But in terms of positioning, comparisons can be made between the UK and China.

Several authors have commented on the success of Chinese brands in the global marketplace (Hong and Sun 2006; Fan 2006; Ming and Williamson 2003; Gilmore and Dumont 2003). For example, according to Hong and Sun (2006: 611), Chinese brands have achieved considerable success in the global market. These include Haier (home appliances), Konka (colour televisions), TCL (multi-electronics), Jianlibao (beverages), Tsingtao (beer), Galanz (microwaves) and others. The majority of these have adopted global branding strategies (Meyer and Tran, 2006). Yet, Deng (2007: 72) suggests that while Chinese firms have invested on a global basis, they have exhibited a strong investment concentration in a small number of destinations, particularly Hong Kong and the United States. Certainly this is true in the case of Haier. The leading white goods manufacturer is relatively well known in the US, yet currently experiences low levels of brand awareness in many European countries, particularly the UK.

Comment [PW29]: Good to see evidence of research (references).

Xin and Pearce (1996) describe China as a planned economy characterized by a weak capital market structure, institutional instability and poorly specified property rights. The latter is a major issue for foreign firms entering China. Developing a global brand involves huge investment. As already cited, poor enforcement of IPR is a key issue for Chinese firms. Infringement not only results in companies losing sales to cheaper imitations, but also it can damage the products brand equity and image. This is one reason perhaps why Chinese firms have failed to invest in R&D and develop their own brands to the same extent as foreign firms. Many of China's 'time-honoured brands' continue to suffer as a result of fake products. A good example is the case of Quanjunde. The company has been producing ducks for the traditional "*Beijing kao ya*" (Beijing Duck) for decades. Yet, the company is under threat as a result of companies producing fake products passing off as Quanjunde.

Since China's accession to the WTO the Chinese government has cracked down hard on IPR infringement. The following extract from Beijing Today (Beijing newspaper) 23rd Aug 2002 is evidence of stricter controls:

' A Chinese motorcycle maker has been fined about $110,000 for pirating trademarks belonging to Japan's Yamaha conglomerate, a lawyer for Yamaha said on Thursday. The ruling by the Tianjin People's High Court earlier this month, also requires the Tianjin Gangtian Group to apologize to Yamaha and remove the trademark name from their products.'

The sentence in the Yamaha case is one of the highest of any pirating cases in China. The fine probably reflects a very small percentage of lost sales to Yamaha as a result of IPR infringement.

An example of a British joint venture in China experiencing problems with IPR in China SSL plc (formerly London International) who produces Durex condoms in Qingdao, Shandong Province. Although marketing condoms in China is very difficult due to government restrictions, the company is experiencing considerable success. Durex has experienced a growing market share. In terms of the branded market, they have about 22 per cent. In Guangdong Province and Beijing they have about 25 per cent. In some areas of Guangdong, like Guangzhou, Shenzhen and Dongguan they have about 40 per cent market share. One of Durex's local competitors is a brand called Jessbon. SSL plc sued Jessbon for copying some information about Durex from their company website and claiming it as their own.

A 'famous brand strategy' approach was incubated and created great enthusiasm among Chinese enterprises, which were eager to catch up with the lessons of branding strategy. At the central level was the China Council for the Promotion of Famous Brands, an organisation that is responsible for "uniform evaluation, management, publicity and cultivation' of brands." Almost immediately people found themselves besieged by brands, many of which had the label of 'famous brand' at county, city or provincial level. This desperate craving for famous brands has cooled down as a result of government efforts to stop various brand evaluation or rating exercises, which were regarded as misleading (Reuvid and Li 2005: 242).

Comment [PW30]: A summary is missing at the end of your literature review. I needed to see a clear link made to your own study.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter will detail the methodology used in the study to demonstrate how the objectives will be answered. The data gathering should achieve the following:

- Allow an understanding of why Chinese firms decide to internationalise
- Examine how Chinese brands internationalise
- Allow an understanding of why China does not have a major global brand
- Provide an understanding of the strategies Chinese brands need to adopt in order to achieve global brand status

3.2 General review of research design

Kerlinger (1986: 279) defines a research design as follows:

A research design is a plan, structure and strategy of investigation so conceived as to obtain answers to research questions or problems. The plan is the complete scheme or program of the research. It includes an outline of what the investigator will do from writing the hypotheses and their operational implications to the final analysis of data.

The research design for this study is exploratory. It combines two principal methods of data collection. First, quantitative analysis will analyse existing studies on internationalisation and global brand development. Second, qualitative case studies of three Chinese firms will be examined to create a holistic picture of their current approach to internationalisation, how this relates to existing internationalisation theory and their current approach to global brand development. A triangulation approach to data collection was used as this reduces the risk of chance associations and of systematic biases (Strauss 1987). Studies that use only one method are more vulnerable to errors linked to that particular method (e.g., loaded interview questions, biased or untrue responses) than are studies that use multiple methods in which different types of data provide cross-data validity checks.

3.3 Sampling and data collection

A purposeful sampling method was applied for the quantitative analysis as limitations dictated that it was difficult to gain access to relevant primary data. Purposeful sampling is used so as to select a sample deliberately in order to examine cases that are critical for the theories that you began the study with, or that you have subsequently developed (Maxwell 1996). While for the qualitative analysis, selection of the Chinese case studies was based on judgemental sampling. Cases were selected on the basis of stage of internationalisation and global brand development, sector, and access to information. In other words, each company is currently at a varying degree of internationalisation and global brand development within their respective sectors. All three cases are someway involved in the technology sector and all allow for access to a wide range of relevant secondary sources. The technology sector was chosen, as this is one of China's fastest growing sectors and allows for interesting comparison between cases.

Although this research project only examines three case studies, when undertaking qualitative research, it is the nature and content of what is said – its meaning – rather than the number of people who are saying it, or the frequency with which it is said, which matters' (Jankowicz 2002: 127). In his 1999 paper entitled 'Cross-cultural research issues' Hunter (1999) stresses the importance of qualitative research techniques when conducting cross-cultural research as it allows the consideration of the following issues:

1) A qualitative approach allows for a more in-depth investigation of the subject. Thus the researcher becomes more involved in the research in order to attempt to understand how a situation is being interpreted.
2) Given the in-depth involvement of qualitative research, the researcher must guard against researcher bias into the data gathering and subsequent analysis.
3) Qualitative research allows the research participant to decide on the content and descriptive nature of the response to the researcher questions. This may allow new ideas to be discussed or different understanding to be documented by the researcher.

The research study employs a deductive research approach in the extent that existing internationalisation theory is applied to the chosen case studies. Data is analysed in order to determine to what extent existing internationalisation theory applies to Chinese firms. While for the brand development aspect of the study an inductive, as opposed to deductive approach is preferred, as there currently exists no definitive conceptual model into global brand development for Chinese firms. Also, a dearth of literature on the subject lends itself towards the inductive option. The inductive approach is also closely linked with qualitative studies. The obvious limitations in gaining accessing to Chinese firms, and the ability to generate primary data through a suitably sized sample means that once again an inductive, largely qualitative approach is ideal for this study. The nature of the research is not to make generalisations about internationalisation and global brand development as a whole, but to provide interesting and new insights based on those Chinese companies analysed.

3.4 Case Study approach

This research project focuses on the internationalisation and global brand development of Chinese firms. It views internationalisation from the organisational perspective as opposed to a particular sector, state or world economy. The exploratory research approach applied in this research follows the case-study method, which is commonly used to study complex phenomena in their real-life contexts (Yin 1989). The present study aims at deeply understanding and better interpreting the subject phenomenon in a specific setting through an embedded multiple case study (Yin 1989: 46). The case study approach was adopted, as this is a useful method for a research problem that requires the analysis of organisational development such as internationalisation and branding. Case studies aid the researcher in generating answers to the question ‘how’ and ‘why’ (Yin 1989; Robson 1993).

The exploratory analysis involves those Chinese firms that are at varying stages of internationalisation and global brand development. The firms selected are Lenovo (computing), Huawei Technologies (telecommunications) and Alibaba Group (e-commerce).

3.5 Data analysis

Secondary data is data, which already exists (Hussey and Hussey 1997). For this study, this includes annual reports, promotional material, published case descriptions, magazine and newspaper reports on Chinese brands, as well as government printed sources (e.g. those published by MOFCOM). Multiple sources of data are used in case studies to increase validity and reliability (Yin 1989). It should be stressed that the secondary data in this research is largely limited to data presented in English. As a non-Chinese speaker, this is an obvious limitation since it is restricting the volume of data available for analysis (see limitations). However, it is a common problem for individual researchers conducting cross-cultural research. As well as not speaking Chinese, two other factors make researching secondary data particularly difficult. First, accessing information remains a problem for Western researchers. China is still very much a planned economy. It comes back to the *guanxi* issue. Second, accuracy of data remains a problem. An obvious example is the recent accusations of 'massaging' the figures in relation to the number of Sars cases.

3.6 Reliability and validity

Reliability concerns the extent to which a measurement of a phenomenon provides stable and consistent results (Carmines and Zeller 1979). Moser and Kalton (1989: 353) define reliability as 'a scale or test is said to be reliable to the extent that repeat measurements made by it under constant conditions will give the same result. Yin (1994) describes it as ‘demonstrating that the operations of a study – such as the data collection procedures can be repeated, with the same results’.

Applying the following three principles was undertaken in order to help deal with the problems of establishing validity (see below) and reliability of a case study:

1. *Use multiple sources of evidence* – A major strength of case study data collection is the opportunity to use many different sources of evidence. The use of multiple sources of evidence in case studies allows an investigator to address a broader range of historical, attitudinal, and behavioural issues. Thus any finding or conclusion in a case study is likely to be much more convincing and accurate if it is based on several different sources of information. (This has been addressed in this study by using a range of sources).

2. *Create a case study database* – Every case study project should strive to develop a formal, presentable database, so that, in principle other investigators can review the evidence directly and not be limited to the written reports. (This has been addressed in that a detailed database was compiled in order to keep a record of all case related sources for future reference.
3. *Maintain a chain of evidence* – This increases reliability by allowing an external observer to follow the derivation of any evidence from initial

research questions to ultimate case study conclusions. The external observer should be able to trace the steps in either direction (from conclusions back to initial research questions or from questions to conclusions). (A chain of evidence was maintained by keeping a detailed account of tasks undertaken during the study).

A number of factors could affect the reliability of this study. These include: not keeping an accurate record of sources, not using a wide range of sources and accuracy of sources. Reliability is often referred to as repeatability. In other words, if someone was to come along and repeat a study six-months later, they will have a clear 'research trail' in order to carry out the same research, thus therefore leading to higher levels of reliability. Maintaining high levels of reliability when conducting research in China can be problematic for two reasons. First, as the economic development is so rapid, research often becomes dated; thereby resulting in even relatively contemporary research becoming almost worthless e.g. "What will China be like following WTO?" Second, the accuracy and reliability of Chinese sources, particularly those of the state backed media and Ministry of Commerce need to be viewed with caution.

Validity is the ability of an instrument to measure what it is designed to measure (Kumar 1996). Nachmias (1992) defines validity, as "Is one measuring what one intends to measure?" In other words, it refers to the relationship between a construct and its indicators. There are three types of validity – content validity, empirical validity and construct validity.

There are two types of content validity: face validity and sampling validity. Firstly, face validity concerns the extent to which an instrument measures what it is supposed to measure. In order to ensure face validity, for example in relation to internationalisation, a number of definitions have been explored within the relevant literature. Empirical validity is concerned with the relationship between a measuring instrument and the measurement outcomes. Measuring instruments used are based on quantitative research from secondary sources; this should therefore provide in-depth insights into the research findings.

Construct validity involves relating a measuring instrument to a general theoretical framework in order to determine whether the instrument is tied to the concepts and theoretical assumptions that are employed. Giorgi (2002) defines it as "the extent to which a test may be said to measure a theoretical construct or trait." Yin (1994) defines it as "establishing correct operational measures for the concepts being studied." A construct is valid to the extent that it measures what it is supposed to measure (Zikmund 1995: 342-345). Construct validity can also be defined as 'the extent to which an operationalisation measures the concept, which it purports to measure (Zaltman *et al*. 1997: 44). This study uses a wide range of sources on China, thereby addressing the issue of construct validity. Giorgi (2002) stresses validation of a construct requires 'gradual accumulation of information from a variety of sources'. The author then says any data throwing light on the construct is acceptable. Thus, appeal is made to developmental changes, age differences, factor analyses etc. But none of these criteria truly eliminate the 'subjective factor' that tests try so hard to eliminate.

In sum, this is an exploratory study that analyses the internationalisation and global brand development of Chinese firms. It draws on a wide range of secondary sources including Marketing and Chinese peer reviewed journals, UK Press, textbooks, magazines, websites, the Chinese Ministry of Commerce, McKinsey Quarterly and the Chinese media e.g. China Daily.

Comment [PW31]: A brief summary, more of a link could have been made with your own study.

CHAPTER FOUR: RESULTS AND ANALYSIS

4.1 Introduction

This chapter reports on the findings of the research. It is structured as follows: The first part analyses the internationalisation of Chinese firms by using statistics from various secondary sources. Second, Chinese brand development is analysed by using data from some of the well-known brand surveys conducted on an annual basis into branding / Chinese brands. Finally, three Chinese cases studies are analysed in relation to their internationalisation process, how this relates to existing internationalisation theory, and their approach to global brand development.

4.2 Analysis of Chinese internationalisation

Our M&A strategy aims to capture the opportunities from the global chemical industry's shift to China by obtaining advanced technology, management expertise, capital and access to markets and by maximizing the synergies with our domestic *companies. We position ourselves as a latecomer and follower in the international chemical industry while viewing global M&A as a shortcut for us to catch up with the world leaders.*

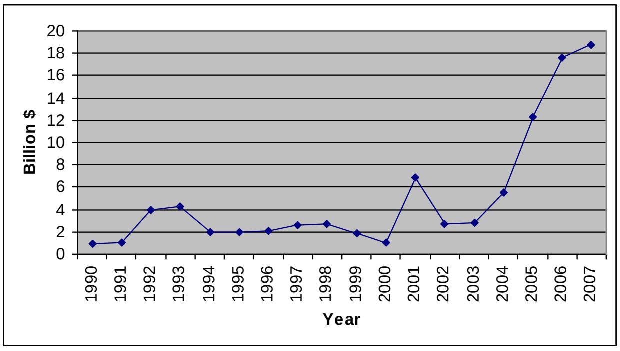
Ren Jianxin, President, China National Chemical Corporation (ChemChina)

Source: Koch and Ramsbottom, (2008)

The above quote by Ren Jianxin, signals a common theme among some of China's leading companies. First, an increasing number of Chinese firms are looking to internationalisation. Second, that the operational vehicle for achieving this is mergers and acquisitions. Finally, mergers and acquisitions are a poplar operational mode because they allow a 'fast track' route towards internationalisation. Yet, do the reasons for internationalisation cited by Ren Jianxin apply to all Chinese firms? One thing is for certain; Chinese firms are increasingly looking outwards.

An illustration of the increased attention on outward investment is the amount of money spent on it in recent years. The average amount of Chinese outward FDI remained at about 2 billion dollars per year in the 1990s, peaking at 4 billion in 1992 and 1993. Afterwards it accelerated to reach 18.7 billion dollars in 2007 (figure 4.1).

Figure 4.1. China's FDI outflows since 1990



Sources: UNCTAD for 1990-2006; MOFCOM for 2007

Why does China's FDI outflow appear to 'take off' from 2002 onwards? The likelihood is that China's accession to the WTO in December 2001 allowed Chinese firms the flexibility to access international markets. The lowering of tariff and non-tariff trade barriers by other WTO members has allowed Chinese firms to go beyond their domestic market. An increase in FDI outflow of approximately $16 billion in five years (2002-2007) is a strong indicator of the Chinese authority's intentions of fulfilling its 'going out' strategy. As discussed in the literature review section, perhaps surprisingly the majority of research into China's economic development tends to focus on inward as opposed to outward FDI.

Undoubtedly a key reason for the increase in internationalisation is the Chinese government's influence. Many of those Chinese firms involved in international markets are large State-Owned enterprises. The government has encouraged Chinese firms to invest abroad, in particular to secure the supply of resources to meet the growing demand at home and transferring matured technologies in which Chinese firms have a comparative advantage. It has supported Chinese small and medium-sized enterprises to expand in international markets. Provincial administrations such as Guangdong and Shanghai have also actively encouraged their domestic enterprises to invest abroad. The Ministry of Commerce has already implemented policy measures, including a relaxed approval system for outward FDI (UNCTAD 2003: 9). Therefore, in the case of overseas investment from China, the role of the state is even more crucial. Its constraints on the overseas operation of its state-run firms, as well as its enabling mechanism, are more direct and formally regulated. Over the years, the central government has played an important political role in directing its large enterprises where and in what sectors their investment overseas occurs. The government aim has been to carry out FDI in targeted sectors and industrial in accordance with China's longer-term strategies (Wang 2002: 194). Arguably, these targeted sectors are those that help fuel China's economic development. For example, when analysing China's vested interest in overseas mergers and acquisitions; energy, technology and the automobile sector have proven popular. Although China continues to focus on attracting FDI (it is now the world's largest recipient of FDI), in recent years it has concentrated on outward investment. In some cases, this outward investment takes the form of ambitious acquisitions of strategically important foreign firms.

Hay *et al.* (2008) suggests that the acquisition of European companies by Chinese firms is generally conducted in a pragmatic fashion driven to a large extent by market opportunities – i.e. European financially – troubled companies. As a result, many Chinese acquisitions are driven by the logic of the host economy's comparative advantage. It is therefore not surprising that Germany hosts 60 per cent of all

Chinese acquisitions across Europe in the general machine and equipment sectors. The acquisitions of Heintel by Beijing Tian Li Cryogenic or of Zimmerman by Dalian Machine are just a few among cases which illustrate this trend (Hay *et a*l. 2008).

Acquiring foreign firms of strategic importance is only one reason why Chinese firms internationalise. Other reasons cited by various authors include saturation of the Chinese domestic market, increased competition, in order to obtain advanced technology, acquire a brand, acquire management expertise, acquire capital and resources, and to access markets. An interesting indicator of the reasons why Chinese firms internationalise is highlighted in table 4.1.

Table 4.1: Reasons why Chinese firms internationalise

Why invest overseas?	Percentage
Expanding overseas markets	47.1
Better profits	16.9
Sluggish demand in China	14.5
Export to third country	12.1
Competition with export from China	9.3

Comment [PW32]: Good.
A nice clear table.

Source: Adapted from UNCTAD Trade Report (2003), “China: An emerging FDI outward investor

The above research conducted by MOFTEC into 100 Chinese multi-national companies shows the main reason that Chinese firms internationalise is to expand into overseas markets. This finding is inline with similar studies (see Deng: 2007a). Yet, ‘expanding overseas markets’ is rather vague. It does not provide specific reasons for internationalisation, or give an indication as to the type of markets e.g. industrialised or emerging economies. Deng (2007a: 80) addresses this point by suggesting that China is mainly accessing and obtaining strategic resources that are available in advanced foreign markets, but which are limited in their home market. Another criticism of the study is that it does not feature a question relating to brand development. Acquiring a brand, such as that of Nanjing Automotive's acquisition of MG Rover is certainly a key reason for developing interest in international markets.

Although Chinese firms cite a number of reasons behind internationalisation, evidence suggests that the preferred operational mode among China's large, mainly state-run enterprises is mergers and acquisitions. Table 4.2 includes some of the recent high profile M&A cases involving Chinese and foreign firms. Although SMEs are also engaged in M&As, these tend to look towards exporting, strategic alliance, or joint ventures as their preferred operational mode towards internationalisation.

Table 4.2: Leading Chinese brands and their mergers and acquisitions involving foreign brands

Company	Sector	M&A activities
China Mobile (SOE)	Telecommunications	Acquisition of Pakistan's mobile phone firms – Paktel Ltd for $284 million. Marking the company's first major overseas acquisition (Jan 2007).
Haier (SOE)	Home appliances, phones, PC systems	Ongoing attempt to acquire GE Appliances in the US. Likely to cost in the region of $5 bn.
Tsingtao Beer	Alcohol	Several acquisitions – Carlsberg Hong Kong, Asia Shuang He Sheng Five Star Beer, Three Ring Asia Pacific Beer Co. Ltd.
TCL	Televisions	Acquisition of the French TV company

		Thomson.
Nanjing Automotive	Automotive	Acquisition of the UK car manufacturer MG Rover in 2005.

Source: Author's own sources (2008)

The majority of Chinese firms engaged in internationalisation are large state-owned enterprises (such as Haier and China Mobile). However, Chinese private firms are also likely to engage in M&As. According to Wong and Chan (2003: 294), Chinese private firms are likely to engage in M&As as a means to accessing advanced technologies and promote the Chinese products, utilize M&A as a channel to raise funds and use M&A in developed countries with mature systems of law and regulations. The authors go onto suggest Chinese private SMEs are also looking towards internationalisation. At present, the majority of internationalisation continues to be undertaken by large SOEs, yet in future China is likely to witness a growing number of private SMEs engaged in internationalisation. In addition, many of these SMEs are in what can be described as a 'learning process' when it comes to internationalisation. Their inexperience, weakness in R&D, need for acquiring new technologies, inferior management, and generally poor quality products means that some Chinese SMEs seek strategic alliances and joint ventures with foreign partners.

4.3 Analysis of Chinese branding

According to the world's leading brand consultancy – Interbrand, China is already making huge strides in the area of brand development. The company cites the following reasons for this:

1. Brand management is already relatively sophisticated

2. Chinese brands are increasingly using global practices

3. Pace of change and size of market provides scope for innovation in branding

4. Many Chinese brands are already global players

5. China is clearly emerging as the next powerhouse

Source: Interbrand (2006)

Of the above points, it is point (4) ‘Many Chinese brands are already global players’ that can be questioned. ‘Global players’ can be interpreted as having a presence in a global marketplace, but certainly does not constitute ‘global brand status’. For example, Bank of China is a global player in the sense that it has representative offices in dozens of countries, yet it does not enjoy the same level of brand recognition as HSBC, Europe’s largest bank. China’s lack of global brands is perhaps best highlighted by an Interbrand study conducted in 2007 into China’s leading brands (Table 4.3). To qualify for the Interbrand brand rankings, the product or service must have brand value in excess of $1 billion, records at least one-third of its sales outside the home base and avails its financial and marketing data to the general public. These constraints eliminate names such as Wal-mart, Visa, Mars and BBC from consideration. Interbrand estimates each brand value on the basis of projected profits discounted to a present value. The discount rate, obtained in collaboration with Wall Street equity specialists, reflects the risk profile, market leadership, stability and global reach to the brand. This brand valuation method has often been criticised due to the subjectivity of the discount rate employed (Chu and Keh 2006: 325).

Comment [PW33]: Evidence of critical analysis.

Table 4.3: 2007 Best Chinese Brands (Top 10)

2007 Rank	2006 Rank	Brand	Industry	Brand value (RMB)	% Change
1	1	China Mobile	Telecommunications	313,000	+11%
2	3	China Construction Bank	Financial Services	83,000	+22%
3	2	Bank of China	Financial Services	82,000	0%
4	5	China Life	Insurance	64,000	+10%
5	-	ICBC	Financial Services	46,000	-
6	4	China Telecom	Telecommunications	30,000	-6%
7	6	Ping An	Insurance	21,000	+62%
8	7	China Merchants Bank	Financial Services	13,000	0%
9	8	Moutai	Alcohol	13,000	+24%
10	-	China Unicom	Telecommunications	12,000	-

Source: Interbrand (2007) Best Chinese Brands

Of the top 10 brands, nine are state owned, while five feature ‘China’ in their title. As already mentioned in the introductory chapter, Chinese brands that use ‘China’ may generate a negative response by some consumers given China’s bad press over human rights, Tibet, and general continued authoritarian approach to governing its people. China has also received negative press over the quality of some of its products. China’s leading brands need to seriously think about their global branding strategy in relation to using the name ‘China’ or adopting perhaps a name that carries no ‘link’ to country of origin. An example for Chinese firms is Deutsche Telecom. The German telecoms’ giant uses the brand name ‘T-mobile’ in the UK. First, if the company decided to use the German name as part of its brand name this may put consumers off, as it is difficult to pronounce. Second, some consumers, especially the older generation may be reluctant to buy such a strong German sounding product due to ‘the war’.

Evidence suggests that some of China’s leading domestic brands are making the transition from domestic to international markets. In April 2008 the market researcher - Millward Brown, published its annual report to the world’s leading brands. The report concluded that Chinese brands continue to get stronger. The value of the four Chinese brands that made this year’s ‘BrandZ’ Top 100 increased by 51 per cent (to $124bn). China Mobile, Bank of China, China Construction Bank and ICBC are just starting to expand beyond China so they have considerable potential for strong growth (www.brandz.com). Table 4.4 shows China’s top brands featured in Millward Brown’s study, along with brand value and year on year change.

Table 4.4: China’s leading brands as per the 2008 ‘BrandZ’ Top Global Brands study

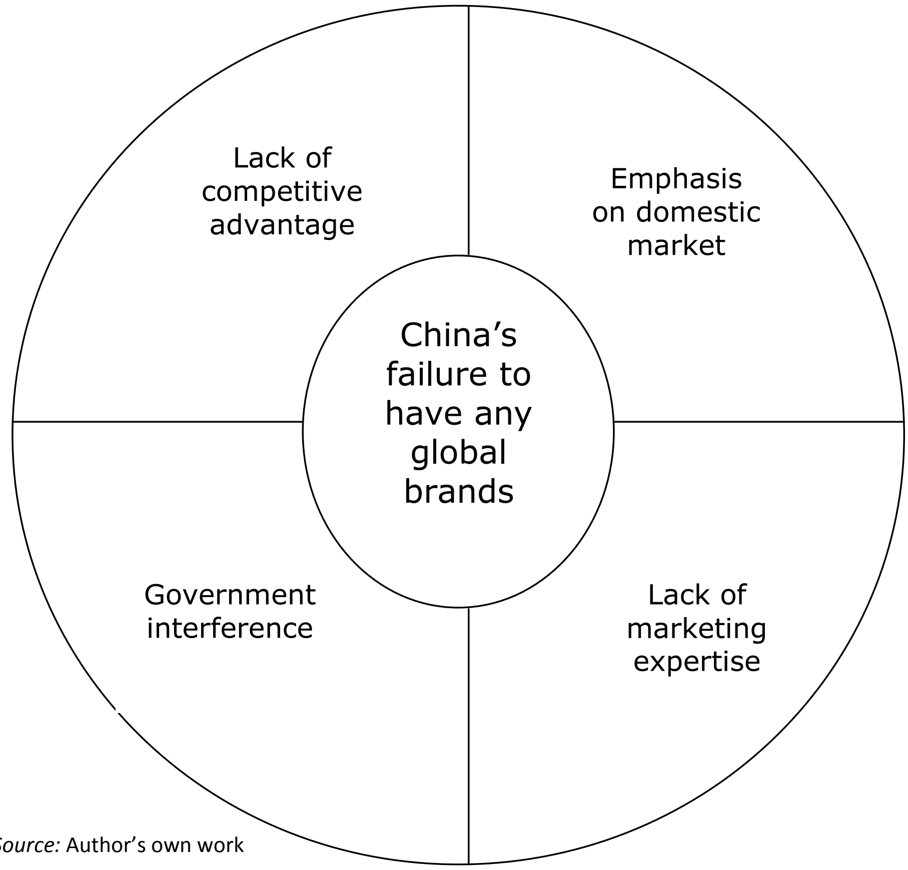
Position	Brand	Brand Value ($M)	*Brand value change (year on year)*
5	China Mobile	57,225	39%
18	ICBC	28,004	70%
31	China Construction Bank	19,603	82%
32	Bank of China	19,418	42%

Source: Millward Brown (2008) ‘Top 100 Most Powerful Brands (BrandZ)’

According to Millward Brown, the above figures are based on the brand’s earnings, the brand’s future prospects and the contribution to the parent company. The rankings were based on a combination of secondary and primary data. Primary research included interviews with a million consumers worldwide. Once again the measurements used in the study can be called into question. Although Millward Brown adopted methodological triangulation by using a range of primary and secondary collection techniques, it is still surprising to see three brands with 'China' in their title. This suggests that they are strong within China and perhaps the region, but have not successfully penetrated international markets. Failure to penetrate international markets is not the only reason why Chinese firms have not yet achieved global brand status. Figure 4.2 illustrates perhaps the key reasons why China does not currently have any truly global brands.

Comment [PW34]: Good.

Figure 4.2: Model of the key reasons why China does not currently have any truly global brands



Source: Author's own work

The above figure shows the main reasons why China does not currently have what can be described as truly global brands. Although the likes of the 'BrandZ 2007' survey place China Mobile as the 5th leading brand in their global brand study, the company does not carry the same level of brand awareness as the likes of its competitors e.g. Motorola and Nokia. One of the reasons for this can be put down to the fact that Chinese companies put *emphasis on their domestic market*. The world's largest mobile phone market, a growing middle class and increasing competition in its own backyard are underlying reasons why China Mobile does not have the same global brand coverage as the likes of Motorola. As an official partner of the Beijing 2008 Olympics, China Mobile is hoping to increase its brand awareness; however, this needs to be combined with international market penetration that resembles the likes of Motorola. To be sure, Motorola and Nokia are useful benchmarks that can be used for the company when developing its brand.

A lack of marketing expertise is another reason for China's lack of a global brand. Under Mao, China was very much focused on production orientation. It was not until the 1990s that Chinese firms really began to employ marketing techniques. Evidence of this is the increase in the number of advertising agencies in China during the 1990s. However, Chinese firms still appear to fail in areas of marketing communications. This includes: Public Relations (PR), advertising, personal selling, direct marketing (e.g. direct mail) and sponsorship. Chinese firms are developing their skills in these areas, largely through 'learning' as part of joint ventures with foreign partners. China does have literally hundreds of traditional domestic brands that perhaps have the competitive advantage to succeed internationally. However, like many of China's famous brands, it is subject to a huge amount of IPR infringements. A lack of marketing expertise also includes Chinese firm's lack of providing adequate IPR protection in order to protect their brands in domestic markets.

Currently the general perception of Chinese brands is that of low-price goods. China needs to develop its nation brand reputation in order to move towards a sustainable *competitive advantage* other than price. The problem faced by many Chinese multinationals is that once they are in international markets, they will be cut off from the sources of their existing competitive advantages derived largely from the low cost base at home (Fan 2008). Certain countries have built up a global reputation in areas of competitive advantage in certain sectors e.g. Germany (engineering), Japan (innovation) and Italy (fashion). China can certainly look to the likes of Japan during the 1980s as a possible benchmark when it comes to developing a competitive advantage. However, poor quality and low price is a perception that will be difficult to overcome for Chinese brands. Recently, there have been a number of high profile cases whereby Chinese products have been subject to global scrutiny due to poor quality and counterfeit. This includes powdered baby milk that led to the malnutrition and death of a number of babies in China in 2004.

Finally, *government interference* can be seen as one factor why China does not have a global brand. The majority of China's leading companies are state-owned enterprises. This can lead to problems over ownership and can fail to promote a culture of entrepreneurship among management. However, China's 'going out' policy that includes government support to develop internationally recognised companies is likely to help Chinese firms. For example, Huawei Technologies one of China's leading telecommunication companies has benefited from China's central government policy to construct large, indigenous globally competitive firms. Government support such as soft loans has helped local and overseas customers fund the purchase of Huawei's products. Government-led initiatives in seeking tender talks in developing nations have significantly raised the company's global profile (Low 2007: 143). Yet, SOEs often lack the managerial expertise required be successful on the international stage. Lenovo aside, Chinese firms often do not have suitably qualified international managers required to operate in international markets. Although the focus of this study is at the organisational level, the success of organisations is dependent on the managerial skills and international experience of management. One of the reasons why the DIY retailer B&Q has been so successful in China is because of the company's policy of employing suitably qualified local managers.

Thus far, this section has addressed reasons as to why China does not have what can be described as a truly global brand. Next, the strategies Chinese brands need to adopt in order to achieve global brand status will be addressed.

In his study into the world's Top Ten Global Brands (as per the 1997 Financial World magazine list), Quelch (1999: 3-5) cites seven common features of all ten global brands. The following list cites these seven features and makes reference to how each one relates to Chinese firms aspirations to achieve global brand status.

- *Strong in home market:* The cash flow you generate from domestic market share is what enables you to fund a global rollout. (Several large Chinese state-owned have the required funds for major acquisitions e.g. Corp of China (Chinalco) investment in Anglo-Australian miner Rio Tinto).
- *Geographical balance in sales:* There is no global brand that is extremely strong in Europe, for example, but hardly known in Asia. By definition, a global brand has at least a minimum level of awareness, recognition and sales all over the world. (This is one area where Chinese brands need some work. Achieving global brand status cannot be achieved unless the likes of Haier invest heavily in marketing communications in order to promote global brand awareness. The likes of Coca Cola and Nike can be used as a possible benchmark).
- *Addresses similar consumer needs worldwide*: The physical products and services are identical, or almost identical, worldwide and meet the same widely held human needs. (This suggests global brands should aim towards standardisation, while in some cases varying the product to suit local needs e.g. McDonald's – has a beef-based menu in the US but a chicken based menu in India. Chinese firms also need to standardise their products wherever possible, but need to be aware of cultural differences. As already cited, getting the brand name right to suit is essential to developing a global brand.)
- *Consistent positioning:* The way in which the likes of Disney are positioned around the world is very consistent: Disney, for example, represents the same special set of family values worldwide. (Chinese firms again need to

consider standardisation in the form of targeting and positioning. For example, what does Haier stand for? What is its target audience?)

- *Consumers value the country of origin:* For many global brands, consumers value the country of origin. Consumers associate countries with expertise in particular products: French perfumes; Japanese consumer electronics; American movies; computers and mass-market packaged goods; German cars and sausages. (Yet, what does China's country of origin stand for? To some consumers – poor quality and low prices. Chinese firms need to change this perception through investing in R&D and focusing on possible areas of competitive advantage).
- *Product category focus:* Products are more likely to achieve global brand status if they focus on a narrow product range e.g. Sony. The likes of Samsung are unlikely to make it to the top of the list of global brands quite simply because they are so diversified and spread across so many categories. (Arguably this is not an issue for Lenovo, as it is able to develop its reputation in the personal computer sector. However, for some other Chinese firms such as Haier, it may prove difficult given their diversification into a wide range of product areas).
- *Corporate name:* In the majority of global brands, the corporate name is the same as the brand name e.g. Coca Cola, McDonald's, Nike etc. All a firms resources can be focused on developing large corporate brands. (The majority of Chinese firms are well placed here e.g. TCL, Lenovo, Haier and Huawei).

The above features or strategic considerations are important to Chinese firms if they are to achieve global brand status. Certain established firms such as Lenovo and Haier are already engaged in several of the above points. Yet it is in the areas of achieving a ‘geographical balance in sales’ and ‘consumers value the country of origin’ that Chinese firms perhaps need to pay the greatest attention. The most difficult of these to overcome is successfully penetrating geographical markets such as Europe and the US. Chinese firms are late entrants in the majority of international markets, therefore will find it difficult to generate the required coverage expected of a global brand.

The next section takes the analysis of internationalisation and global brand development a step further by focusing on three Chinese case studies – Lenovo IBM, Huawei Technologies and Alibaba Group.

4.4 Case study 1: Lenovo IBM

Background

Lenovo was founded in 1988 and is now the largest information technology enterprise in China. The main part of its business is the manufacture and sale of personal computers. The company changed its original brand name (Legend) to that of Lenovo (www.lenovo.com) in 2003 as the former had been registered in a number of overseas markets thereby making it difficult to develop global brand status. After being an established brand in China for some years, the successful purchase of IBM’s PC division in 2005 now means that Lenovo is a major player in the world PC market with annual sales in the region of $13 billion. This purchase advances Lenovo’s internationalisation process. Arguably of all China's leading brands, Lenovo is best placed to achieve 'global brand status'. It has already made considerable strides by investing heavily in sponsorship of the Beijing 2008 Olympic Games. Lenovo is the only worldwide Olympic Partner and worldwide presenting partner of the Olympic Torch Relay originating from China. Lenovo is also engaged in public relations. After the May 12th Wenchuan earthquake, Lenovo donated 10 million Yuan to the Ministry of Civil Affairs the following day. On the day of the quake more than 600 Lenovo employees donated blood, led by Chen Shaopeng Senior Vice-President of Lenovo Group as well as Greater China and Russia President (People's Daily).

Internationalisation process

Lenovo's internationalisation process began in 2001 with the opening of seven overseas offices. In 2004, the company bought IBM's PC division for US$1.75 billion in cash, stock and assumed liabilities (Fan, 2006). IBM has a nearly 19 per cent ownership stake in the new company, while 26 per cent is held by the Chinese government. Interestingly, Lenovo acquired rights to the IBM brand name for five years, thereby, acquiring a major global brand name. A key strategic issue for Lenovo has been to decide to what extent the IBM brand should be promoted prior to the five year period comes to an end.

What Lenovo has done is a 'leap frog' strategy that has evidently greatly accelerated the process of becoming an established multi-national. In this respect it does not fit with the stages model theories. The company's acquisition of IBM's PC business allows it to develop a new competitive advantage – namely using the global brand recognition of IBM. Lenovo has been able to use this for the first five years after the acquisition. The company cannot be described as a Born Global as the company concentrated on its domestic market prior to internationalisation.

Global Brand Development

Out of China's existing leading brands, it is perhaps Lenovo that is best placed to develop its brand in international markets. First, following the acquisition of IBM's PC division the company has done remarkably well in integrating the business. The majority of IBM's highly skilled staff has been retained, and the company is now among the world's top three producers of personal computers.

Lenovo's sponsorship of the 2008 Beijing Olympics is likely to provide an excellent platform for promoting the brand to a global audience. The company has adopted what can be described as a modern approach to brand development by acquiring a worldwide brand name (IBM) albeit for a limited period, and are therefore able to 'ride on the success' of this brand. An important factor for Lenovo is how they communicate the transition from the IBM brand to that of Lenovo. This involves educating the consumer on the change and emphasizing that although the name may have changed, the underlying qualities of IBM still exist.

Changing the brand name from Legend to that of Lenovo was also a smart move. Not only because the name 'Legend' is registered in many countries, therefore likely to prove difficult to register, but 'Lenovo' is a name that is likely to 'travel well' across international markets and not be subject to cultural issues. In addition, it sounds like a European, perhaps even French, as opposed to a Chinese brand. Given that some consumers associate Chinese goods with poor quality and low prices, hiding the country of origin by adopting a European sounding name may prove to be a successful approach to its global branding strategy. Especially since the majority of global brands standardise their brand name.

The next step for Lenovo is to invest in marketing communications in order to communicate the brand values that the company developed through its acquisition of IBM. The aim is to ensure that those consumers brand loyal to IBM, stay with the company following the transition to the Lenovo brand. Through promoting brand awareness, investing in R&D, and continuing with the successful integration of the business, Lenovo can make significant progress in terms of achieving global brand status.

Summary

Lenovo has undergone a rapid process of internationalisation that certainly does not fit with the stages approach and Born Global theories of internationalisation. If anything, Lenovo's approach can best be described as 'leapfrogging'. In other words, it has bypassed the different stages to move from the establishment of sales offices in overseas markets to the acquisition of IBM's PC division.

The company made the right strategic decision by changing its name from Legend to Lenovo, allowing freedom to register the brand name in global markets. The acquisition of IBM's PC division has also helped the company to learn what is required in order to develop the Lenovo brand to a similar level to that of IBM. It is the author's own belief that the company has some way to go. A recent visit to a John Lewis store provided evidence that Lenovo has now rebranded its PC's, as the computers used by John Lewis staff all carry the Lenovo brand. Yet, has this transition been communicated to consumers? Thus far, arguably more needs to be done in promoting this transition and increasing brand awareness, especially since the first Lenovo branded products debuted outside of China in 2006.

Comment [PW35]: Your summary addresses the key points.

4.5 Case study 2: Huawei Technologies

Background

Huawei was founded in 1988 in the city of Shenzhen in South China. The company is a private enterprise and began by selling imported telephone call switches before manufacturing them. Products include wireless networks, handsets and terminals, data communication networks and optical networks (www.huawei.com). Huawei is now the largest telecom vendor in China. Huawei's penetration into international markets has been impressive. The company's international sales grew from US$330 million in 2001 to US$2.28 billion in 2004, a growth of more than 590 per cent. The company employs more than 60,000 people and its products are sold in more than 100 countries. For a relatively young company, Huawei is now a major global player within the telecommunications sector.

Internationalisation process

Huawei has also chased after international markets and started to infiltrate several markets by the late 1990s and early 2000s. Interestingly, the company followed similar strategies in its expansion internationally as it did domestically. By going after markets in less developed areas such as south East Asia and South America, it got an international base which helped it then expand to the Middle East and more developed countries in Europe and North America. Its strategy of offering both extremely competitive pricing and products designed to add value for their customers (strategic decision 2007: 19).

During the late 1990s, supported by a multi-billion dollar credit line from the Chinese government, Huawei took full advantage of its competitive strengths by reducing networking costs by 70 per cent compared with Cisco, its much larger rival. Through partnerships with 3Com and Siemens, Huawei entered new markets, and in the UK, it won British Telecom's (BT) business, ultimately forcing he domestic incumbent Marconi Corporation onto the selling block. From 2001 to 2005, Huawei's revenue rose from $2.3 billion to nearly $6 billion, and it cut Cisco's market share in China to less than 40 per cent. In 2006, Vodafone introduced its latest branded consumer mobile phone, and announced that Huawei was its first choice to manufacture the handset. Huawei could produce the phone 30 per cent cheaper than a larger equipment manufacturer (Morehouse *et al*. 2008: 4)

Huawei's foray into international markets was initially limited to developing countries in South-East Asia, Central Asia and Latin America. The company then sought international growth into Middle Eastern nations, before turning their attention to developed nations, before turning their attention to developed nations, including the UK, USA, Sweden and the Netherlands. It has also established 32 worldwide branch offices, and eight regional headquarters, with established research institutes in Dallas (USA), Bangalore (India), Stockholm (Sweden), Moscow (Russia), Beijing and Shanghai China (Low, 2007: 138). The company has almost 2,000 employees in Europe. In 2006, the European turnover of Huawei amounted to 7,701 million dollars (from 160 million in 2003) (Hay *et al*. 2008).

In 2004, Huawei formed a joint venture with US based 3Com to manufacture and market low-end routers. The deal allows 3Com to sell Huawei's computer data routing equipment under 3Com's name outside of China and Japan. In China and Japan, Huawei products are sold under the joint venture name 'Huawei-3Com'.

In 2005, Huawei made an attempt to buy Marconi UK. The possible US$1.08 billion signals Huawei's global intentions. It is inline with other leading Chinese companies that seek a fast track approach to internationalisation through the merger or acquisition of a direct competitor. Huawei's approach to internationalisation can perhaps be described as 'aggressive'. Although it adopted a gradual approach by first focusing on developing countries, it soon became a major player in the telecommunications sector. By focusing on developing markets, followed by developed countries it can be viewed that Huawei's internationalisation process is similar to that of a 'stages approach'. Like Lenovo, Huawei cannot be described as a Born Global quite simply because it focused on its domestic market prior to internationalisation.

Global brand development

Huawei is winning contracts for its equipment in dozens of countries; its rivals include Cisco, and Lucent-Alcatel whose own merger, it is reported, was provoked in part by the threat posed by Huawei (Silver *et al*. 2006). Yet, although Huawei has a strong brand identity in China, it is trying to play ‘catch up’ with its competitors such as Lucent and Alcatel. As Huawei expanded beyond China, it adopted a business model that emphasized new technology, focused more sharply on the customers needs, and carefully built a brand image. The company also made a strategic choice to enter developing markets first. To build the brand the company first entered emerging markets such as Eastern Europe, with lower brand loyalty, which reduced its entry costs, before moving to developed markets (Dietz *et al*. 2008).

Given its range of international markets, Huawei can perhaps be described as a global brand, certainly in the context of business-to- business (B2B) markets. However, Huawei can only truly become global when it starts to become a leading consumer brand. Global brands are usually measured on the basis of consumer awareness, values, loyalty etc. Therefore, in order for Huawei to achieve this, the firm would need to consider diversification into consumer markets or perhaps forward integration (e.g. acquiring a mobile phone operator).

Summary

Huawei’s rise within the telecommunications sector has been impressive. The company has made its global ambitions clear through the setting up of subsidiaries in a number of key markets, the establishment of a joint venture with 3Com and the attempted acquisition of Marconi UK. In the last decade, Huawei has grown from a company with 800 employees and a single kind of product (telephone equipment) sold only in China into a corporation with 61,000 employees and six product lines sold to customers in more than 100 countries (Dietz *et al*.2008). The company's internationalisation can almost be described as a 'stages approach', although it does not move from one market entry method to another, but uses a range of methods e.g. joint ventures, subsidiaries and representative offices.

Although Huawei has excellent market coverage, it will prove difficult for the firm to achieve global brand status as it is largely involved in B2B markets. Global brands tend to be consumer brands; therefore if it has global brand aspirations, diversification or forward integration appears to be the main strategic options.

4.6 Case study 3: Alibaba Group

Background

Alibaba Group is a global e-commerce leader and the largest e-commerce company in China. Based in Hangzhou, it was founded in 1999 by Jack Ma. Since its inception, the group has grown to include core member companies (www.alibaba.com):

Alibaba.com – Alibaba Group's flagship company and the leading B2B e-commerce company in China, serving SME's in China and around the word.

Taobao – A leading online shopping market place for consumers in China.

Aliplay – China's leading online payment service.

China Yahoo! – A search engine and lifestyle portal, acquired from Yahoo! Inc October 2005.

Alisoft – An Internet based business management Software Company targeting SME's in China.

Alimama – An online advertising exchange for web publishers and advertisers to trade online advertising inventory in China.

Alibaba Group's main company is Alibaba.com. Among all developing e-commerce businesses in China, Alibaba.com has received much attention (Hu *et al*. 2004). In 2007 the company finally listed on the Hong Kong stock exchange raising U$1.5 billion. The fact that this remains the world's second largest IPO of an internet company (after Google), illustrates the size and global ambitions of the company.

Internationalisation Process

In October 2005, Alibaba group and Yahoo! Inc formed a long-term strategic partnership. In the landmark transaction, Alibaba Group acquired Yahoo! China and assumed management control of Yahoo! China's operations, and Yahoo! Inc invested US$1 billion and became a strategic shareholder in Alibaba Group. Through the partnership, Alibaba Group has access to Yahoo's world-class technology and global resources to better serve businesses and consumers in China and around the world.

Only 6 per cent of Yahoo China's technicians left the company after the merger, far below the average level of 30 per cent of brain drain following a company's merger and acquisition, promising consumers a totally different Yahoo China one year after the acquisition. As part of the acquisition agreement, Alibaba also obtained 1 billion US dollars of investment from Yahoo as well as the exclusive right of using the Yahoo brand (www.chinadaily.com). Once again the model of Alibaba's growth is similar to that of other cases analysed in this section, that is to say it can be described as fast track, with a view to acquiring a major competitor in the process. However, in the case of Alibaba its growth through internationalisation is perhaps even more remarkable given the company is still less than ten years old. In relation to internationalisation theory, Alibaba in some respects can be described as a Born Global. Like most dot.com companies it is able to promote global coverage from the outset. The company recognises the competitiveness of the marketplace, hence the strategic partnership with Yahoo!

Global Brand Development

Although Alibaba Group has a number of member companies; its main interests are Alibaba.com and China Yahoo! Alibaba.com is the world's largest online business-to-business (B2B) market place for global trade and plays host to China's leading domestic B2B trade communities, while China Yahoo! is a search engine portal. Both brands have excellent brand awareness within China, yet of the two, China Yahoo! has the greatest global brand recognition. This is partly a result of its popularity among Chinese diaspora. Obviously the ability to use the Yahoo! brand, albeit for a limited period is likely to be a great advantage for Alibaba. However, like other Chinese firms that acquire or are able to use a foreign brand name, it is important to promote it in the right way.

It is clear that Alibaba has global aspirations. During August 2008, Alibaba.com launched a global advertising campaign on American TV channel CNBC. Although unusual for a B2B company to use TV as an advertising medium, it may prove to be an effective ‘pull’ strategy is helping to raise the brands profile. Alibaba has also adopted the slogan “Where smart buyers find suppliers online” (www.Alibaba.com). The name ‘Alibaba’ is a strength internationally as it is likely to travel well. Jack Ma actually conducted his own anecdotal research by questioning Westerners on their views of Alibaba before deciding to go with it!

Summary

Alibaba Group’s rapid development is nothing short of remarkable. Consistent with many other technology firms in China, Alibaba has become a well-established brand within its domestic market. Its ability to capitalise on the Yahoo! brand can also help the company continue with its impressive growth. This can only be achieved if the company communicates the Yahoo! brand effectively within China and among Chinese diaspora. In terms of internationalisation, Alibaba can be described as a Born Global, while at the same time it portrays the aggressive nature of many other Chinese firms by trying to gain a ‘fast track’ to success through the acquisition of already established brands. As the core of Alibaba group’s business is B2B, it is ultimately more challenging to develop global brand status. Yet, the group has made significant progress thorough its tie up with Yahoo!

CHAPTER FIVE: CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This study's objectives were to examine the internationalisation and global brand development of Chinese firms. First, they provide an eclectic mix of reasons why Chinese firms decide to internationalise. However, the main reason appears to be 'access new markets'. Other reasons for China's 'going out strategy' include: securing natural resources, and obtaining new technologies and brands. Second, they show that M&As appear to be a favoured method of internationalisation for larger firms, particularly large state-owned enterprises. While SME's also engage in M&As, they also look to explore other operational modes such as exporting, strategic alliance and joint ventures. Because of this, it is difficult to see how the internationalisation theories discussed in this study, namely 'Born Global' and 'Stage Models' can be consistently applied in a Chinese context. Third, China still lacks what can be described as a truly global brand. The key reasons for this can be put down to Chinese firms lacking marketing expertise, and adopting an insular approach by focusing on their domestic market rather than internationalisation. In order to develop global brands, Chinese firms must be strong in their home market, and above all address similar consumer needs worldwide.

The remainder of this chapter provides a more detailed insight into the findings of this study by addressing each respective objective in turn. Next, a conceptual framework is proposed that focuses on the internationalisation and global brand development of Chinese firms. This is followed by a discussion on the limitations associated with the research. Finally, the chapter concludes with possible future areas of research.

5.2 Discussion on the internationalisation of Chinese firms

The first objective in this research is: *"To understand what motivates Chinese firms to internationalise."* Results indicate that there is no one overriding factor that leads a Chinese firm to internationalise. Yet, what is clear from this study is that the Chinese government is actively engaged in a 'push' strategy of supporting firms in the internationalisation process. WTO entry signals a major development in the government strategic objectives, namely, to see a growing number of Chinese firms emerge as global competitors. It has a clear policy of nurturing Chinese firms that will be competitive abroad, as well as domestic firms that can compete successfully against multi-nationals in China (Wei and White 2006).

Comment [PW36]: Well done for restating objectives. This should help to make sure that each one is fully addressed.

Evidence from this study in the form of China's huge growth in outward investment, along with case studies such as Lenovo and Huawei, illustrate that a growing number of Chinese firms are seeking access to international markets. For large state-run enterprises the incentive for internationalisation tends to be based on access to market, obtaining new technologies, acquiring resources, acquiring management expertise and finally buying into a brand. The latter certainly applies to Lenovo's acquisition of IBM's PC division. For Chinese SMEs and private enterprises the reasons for internationalisation are broadly similar. Although in the case of large SOEs, potential acquisitions may well be taken on the basis of national interests. As was the case of China National Offshore Corporation's attempted acquisition of the US oil company Unocal.

The second internationalisation related objective is to: "*Examine the internationalisation strategies adopted by Chinese firms*". For this study, internationalisation strategy largely focuses on market entry method, although a key feature is the extent that internationalisation theory such as 'Stages Models' and 'Born Global' applies to Chinese firms.

One of the main market entry methods appears to be mergers and acquisitions. This is certainly the case for large state-owned enterprises. *Why mergers and acquisitions?* A buyer could move the bulk of the acquired company's production to China and retain the brand name, distribution channels, and some of the local talent. Overtime, it could co-brand the product with its own name to build consumer awareness of its Chinese brand. Once the association and awareness had been firmly established, the buyer could phase out the target brand (Gao *et al*. 2003). China seems to be making significant inroads in this area – Lenovo, the largest manufacturer of PCs in China, acquired IBMs PC unit in December 2004 for US$ 1.75 billion; Haier, a Chinese household appliances company, has established manufacturing plants in South Carolina; TCL, the leading electronics business in China, bought the television arm of France's Thomason SA as well as the handset operations of Frances's Alcatel SA, and Nanjing Automotive industry corporation acquired MG Rover for £60 million to establish research and production facilities in the UK (Gao 2008). China Mobile, the world's largest cell phone company with 330 million accounts, is reportedly taking an active approach to foreign acquisitions, commencing with its acquisition of Paktel, Pakistan’s fifth-largest wireless company, for $460 million (Chandler 2007; Singer and Dean 2006).

Case study evidence (e.g. Nanjing Automotive, Lenovo, and Alibaba) illustrates that acquiring established foreign brands is a key strategy in the internationalisation process for some Chinese brands. However, although mergers and acquisitions appear to dominate the market entry methods for many of China’s leading companies, SMEs often opt for market entry methods that allow a ‘learning process’. The entry strategy of Chinese multi-nationals into foreign markets can vary with the size and the foreign business experience of the parent company (Zhang and Van Den Burke 1996). For example, joint ventures and strategic alliances are favourable among Chinese SMEs as they allow access to market and vital resources. An increasing trend among private Chinese SMEs is to raise capital on foreign exchange markets. The AIM market in the UK is proving popular with Chinese companies. As mentioned, Chinese companies such as Sunrise Technologies have raised essential capital in order to develop their brand of Mulberry Tea across international markets. An appropriate market entry strategy mode should be based on a competitive analysis of the firm’s core competence, which generates competitive advantage; also, the importance of brand recognition, and brand image in global markets cannot be ignored. Chinese multi-national companies need to focus on establishing R&D and move away from the low-cost image.

This study also suggests that existing internationalisation theory tends to be proposed by Western researchers and does not reflect the current process of Chinese internationalisation. For example, many Chinese firms do not follow the typical 'stages' approach to internationalisation, but bypass these through acquiring or merging with other companies. This view is shared by Fan (2008: 357), *"Multi-nationals are the product of the Western developed economy formed during the early stage of globalisation, while emerging market multi-nationals (EMMS, e.g. Chinese firms) are based in developing countries in the late-stage of globalisation*." The author questions whether the extant theory of international competitive strategy and marketing can be applied to EMM. While Western models and theories are acceptable and useful in Western business settings, transplanting such frameworks to the Chinese culture may not apply to China's managers and entrepreneurs (Johnson and Weiss 2008: 78). However, there are some instances where Chinese firms, such as Alibaba Group and Huawei Technologies, have largely followed the likes of a stages approach or Born Global respectively. Still, existing internationalisation theory is Western in orientation, dated, and developed at a time prior to China's globalisation.

For Chinese firms considering internationalisation, irrespective of the fact they are state-owned or private; the Chinese government will play a significant role. However, government from the host countries Chinese firms are looking to enter also play a key role. When considering entering international markets, Chinese firms need to assess the political risk. Political risk can be defined as: 'uncertainty that stems in whole or on part, from the exercise of power by governmental and nongovernmental actors (Zonis, 2000). Political risks can be classified into two broad categories, ‘macro-political’ and ‘micro-political’.

1. Macro-political risks – these affect all firms in a country e.g. higher levels of inflation or taxation. An example for Chinese firms is the recent sub-prime mortgage crisis in the US.

2. Micro-political risk – affects only specific firms, industries or types of cultures. This could be new regulations or specific taxes on certain industries. For example, large state-owned firms such as PetroChina and Sinopec that seek mergers and acquisitions in international markets are likely to be met by protectionism and fears over national security in some markets.

Finally, perhaps the overriding theme in relation to the internationalisation of Chinese firms is the importance of political factors. Many are SOEs; therefore the government has a vested interest. Though, the Chinese government can also play a significant role in supporting Chinese private firms with their international aspirations. As illustrated by the multi-billion dollar credit line from the Chinese government awarded to Huawei during the 1990s.

5.3 Discussion on the development of Chinese brands

The first objective relating to brands is: *“Determine the reasons behind China’s lack of truly global brands.”* Chinese companies have shown convincingly that they can produce competitively priced, high quality goods. Galanz, for instance, makes microwave ovens on an OEM basis for almost all of the world’s leading consumer electronics companies. Little Swan supplies General Electric with dishwashers. And Changhong Electric supplied Wal-mart stores with televisions sold under an unrelated brand (Gao *et al* 2003). The findings in this study are in line with previous studies that stress that China has someway to go in developing global brands (e.g. Fan 2006; Gao *et al*. 2003). Although China has made significant progress in developing its brands, arguably it still fails to have developed what can be described as a truly 'global brand'. To be sure, China has failed to develop what can be described as a McDonalds' or Coca Cola.

A number of reasons exist why China has failed to penetrate the table of the world's leading brands. These include: a focus on its domestic market, a lack of competing advantage, a lack of marketing expertise, and government interference. Although Chinese government has been highlighted as supportive to Chinese firms, inline with its 'going out' policy, for SOEs, problems are usually associated with ownership and a lack of entrepreneurship. Of course, many private Chinese firms display no shortage of the latter.

The second objective relating to branding is: *"Examine the strategies Chinese firms need to adopt in order to develop global brands."* Chinese firms should choose between a traditional and modern approach (Ewing et al., 2001). A step-by-step approach to branding is based on local, to regional and finally global, while a modern approach accelerates brand development through the acquisition / joint venture of foreign brands. Findings in this study indicate that most Chinese firms appear to adopt a modern approach to branding. All three Chinese cases featured have acquired or attempted to acquire foreign brands – Lenovo (IBM), Huawei (Marconi), and Alibaba (Yahoo!). This fast track approach to internationalisation and global brand development can be highly productive. However, potential problems include integrating the business (brand) and communicating the acquisition to consumers.

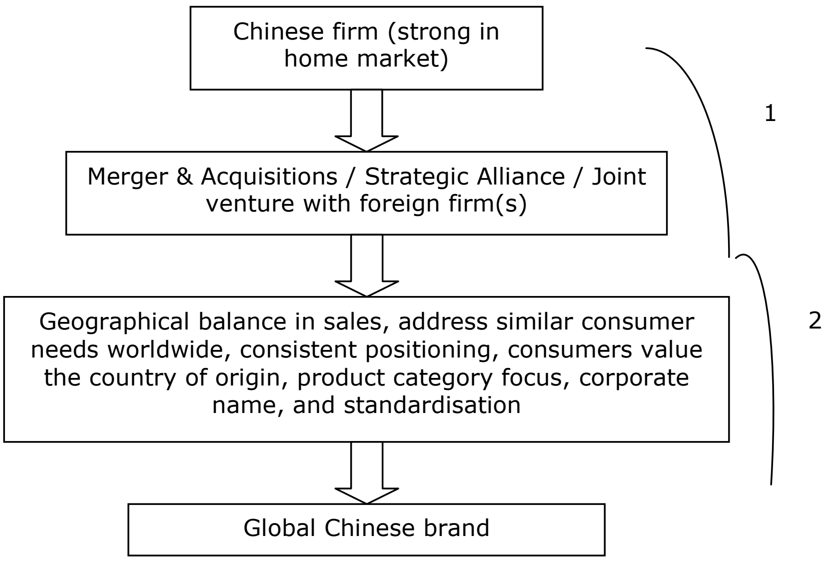
Another strategy Chinese firms can adopt in order to develop global brands is benchmarking. Perhaps an obvious example is to benchmark leading companies in its neighbouring market of Japan and South Korea. The likes of Sony have been extremely successful in building a global brand that has a strong competitive advantage (innovation), competes in a global marketplace, has high levels of brand loyalty and is clearly positioning at the premium end of the market. Chinese brands need to develop in several of these areas. In particular, investing in R&D, developing a competitive advantage that goes beyond low prices, and increasing global coverage and brand awareness.

Finally, Chinese firms could do well to note the characteristics of a global brand as proposed by Quelch (1999: 3-5), namely: a firm needs to be strong in its home market; must have a geographical balance in sales; address similar consumer needs worldwide; adopt a consistent positioning strategy; ensure consumers value the country of origin; product category focus; and finally adopt a corporate name approach to branding. Of these, it is ‘ensure consumers value the country of origin’, that is perhaps beyond the control of each Chinese firm. This requires a collect effort similar to that employed by Japanese firms during the 1980s. Investment in R&D can help to change the perception among some consumers that Chinese goods are of inferior quality.

5.4 Conceptual framework

The framework described here (figure 5.1) is normative and mostly prescriptive. A next step would be to empirically apply the framework to different Chinese firms across a wide range of sectors in China.

Figure 5.1: Conceptual framework for the 'fast track' internationalisation and global brand development of Chinese firms



1 = Internationalisation

2 = Global brand development

Figure 5.1 brings together the findings from this research by putting it into a conceptual framework. First, if a Chinese firm has global brand aspirations it obviously needs to be strong in its domestic market (e.g. Alibaba.com). If a Chinese firm fulfils this condition then it can look at a number of internationalisation strategies *(step 1)*. These include: mergers and acquisitions, strategic alliance or joint venture with foreign firms. Findings from this study suggests that many of China's leading firms are increasingly looking at M&As as a fast track route to internationalisation and subsequently global brand development. Examples include: Lenovo (IBM), Alibaba (Yahoo!) and Najing Automotive (MG Rover). In the short-term, it is only through a merger or acquisition of a foreign competitor that a Chinese firm can hope to penetrate global markets. Also, it is a good way to overcoming low brand value (Hong and Sun, 2006: 629). As late market entrants, often with limited resources and a lack of international experience, internationalisation through M&As makes sense. However, the difficulty is always going to be integrating the business. The next step *(Step 2),* requires the firm to implement the branding strategies required in order to achieve global brand status. This requires huge investment in global marketing communications, protection of IPR, and above all those requirements highlighted in figure 5.1 (*Step 2*). These have been fully discussed in 4.3 and are based on Quelch's (1999) study into the characteristics of the Top Ten global brands. The only addition to Quelch's list is standardisation. Once again, the world's leading global brands such as McDonald's and Coca Cola attempt to standardise whenever possible. If a Chinese firm is able to successfully complete step 2, then it should be in a position to have achieved global brand status. Of course, the above framework needs to be empirically tested.

However, it can serve as a useful benchmark for Chinese firms considering internationalisation and global brand development.

Comment [PW37]: Good to see analysis of the above framework.

5.5 Limitations of the study

A number of caveats must be issued with the findings of the study. These can be divided into the following categories: 1) time factors, 2) level of *guanx*i, 3) environmental change.

Time restrictions are always a major issue in any research project. This study is no exception. In this case, time factors are not so much to do with the amount allocated to complete the dissertation, but other commitments faced by the author. As a distance learning student completing such a large project has certainly been somewhat of a 'balancing act' with full-time work commitments. Ideally, a project of this nature should adopt a full-time commitment.

Guanxi or personal connections remain an important aspect to not only doing business in China, but also gaining access to data for researchers. The author recognises that having the right '*guanxi* links' can certainly help in developing a suitable sample, particularly using techniques such as snowball sampling.

Finally, the rapid social, economic and political change that China is experiencing means that a cross-sectional study is likely to become dated very quickly. An example of this is that following China's accession to the World Trade Organisation in December 2001, many articles prior to this became irrelevant.

5.6 Future research

The carrying out of primary research into Chinese global brand development is an obvious suggestion for future research. In addition, much of the existing articles into Chinese brands tend to focus on China's larger, better-known companies such as Haier, Lenovo and Tsingtao beer. Chinese SME's that have the potential to develop their brands and internationalise is an obvious next step in relation to Chinese internationalisation and brand research.

A longitudinal study into Chinese outward investment and global brand development is likely to provide interesting insights for both researchers and Chinese firms considering internationalisation. A cross-cultural, comparative study, perhaps involving firms from the UK and China would also provide a fascinating insight into how internationalisation and global brand development compares between the two states. In addition, a suitably sized sample would help to generate the kind of results that serve to make an invaluable contribution to the current literature on Chinese outward investment / internationalisation.

Comment [PW38]: Good.

Finally, China's rapid growth will continue to demand research into this area. The scope for exploring different aspects of not only the internationalisation of Chinese firms, but also global brand development in general is tremendous.

ACKNOWLEDGEMENTS

I am grateful to XXXXXXX for his useful comments.

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