

Studies on Enlightenment of China: Haier Group's Transnational Operations to Chinese Enterprise

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Abstract

After China joined World Trade Organization, enterprises carrying on transnational operations is necessity; enterprises' transnational operations generally started from export. Regarding the mature product, after exportation developing into certain stage, to follow the need of overseas market development, must carry on the comparison, by determined that which modes of business operation do serve the enterprise benefit. It must develop the transnational operations, the government should increase the support dynamics to the enterprise; The enterprise should raise own competitive advantage diligently; Speeds up the business management and the international trail connection step; Creates new technology as circumstances permit; Pays special attention to capital operation. Haier's transnational operations have given Chinese enterprises much enlightenment.

Key words: Haier group; Transnational operations; Competitive; International

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1. HAIER GROUP INTRODUCTION

Haier is the world's fourth largest white goods manufacturers and is also the official home appliances

sponsor of the Beijing 2008 Olympic Games. As of 2007, the Haier Group has established a total of 64 trading companies (19 located overseas), 29 manufacturing plants (24 overseas), 8 design centers (5 overseas) and 16 industrial parks (4 overseas). Consistent with Haier's position as a global brand, the company employs over 50,000 people around the world. In addition, Haier boasts a 58,800-strong sales network which last year accounted for a global turnover of 118 billion RMB (16.2 billion USD). Guided by the branding strategy of CEO Ruimin Zhang, Haier has advanced through the 'brand building,' 'diversification', and 'internationalization' stages, and since 2005 has embarked on the fourth stage: "Global Branding." Haier has enjoyed a growing international reputation over the past 24 years. 19 of the companies products, including refrigerators, air conditioners, washing machines, televisions, water heaters, personal computers, mobile phones, and kitchen appliances have been rated as "Top Brands" in China, and China's General Administration of Quality Supervision, Inspection and Quarantine has named Haier refrigerators and washing machines as among China's "Top Global Brands." In 2006, for the fourth consecutive year, Haier was ranked first in terms of overall leadership among mainland Chinese companies in the Wall Street Journal Asia's annual survey of Asia's 200 Most Admired Companies (YANG, 2004). In March 2008, the Financial Times once again added Haier to its list of Top 10 Chinese Global Brand Names with survey respondents ranking Haier number one in terms of product quality, trust, innovation, management, and branding. In May 2008, Haier ranked 13th on Forbes' Reputation Institute Global 200 list. As of June 2008, the company has been awarded 8333 patents, with 1996 for Haier design team inventions. In 2007 alone Haier obtained 875 patents; 502 were invention patents. Haier has participated in the institution and modification of nine international standards, as well as 152 national and 425 industry standards, with three

international standards set to launch in the near future. Of all the Chinese household appliance companies, Haier by far leads the way in the creation of international, national, and industry standards. Haier management models such as "OEC," "market chain," and "Integration of Individuals and Goals" have been case studies at Harvard Business School, the University of Southern California; IMD in Lausanne, Switzerland; INSEAD in France, and Kobe University. Haier's "market chain" management model has been included in the European Union's case study library (LI & CAO, 1996).

2. THE NECESSARY OF HAIER TRANSNATIONAL OPERATIONS

2.1 China Joins World Trade Organization, the Enterprise Transnational Operations into Development Necessity

After China joins World Trade Organization, opening step to the outside world will speed further up, along with trade protectionism massive reductions and national treatment implementation, on the one hand, the foreign commodity and the service will be easier to push in the domestic market, on the other hand, the overseas large-scale international enterprise will increase to investment to China, further occupies the domestic market share. This will cause keener competition in the domestic commodity and the service market, causes the Domestic enterprise faced with the more difficult management aspect; it will force the enterprise to implement internationalization developmental strategy positively, participation international economy competition in broader spatial, gain scarce resources and market share (LUO, 2001). Haier develops the transnational operations under the background which the domestic electrical appliances profession rapidly expand, the domestic market competition are day by day intense, the price war occurs in the electrical appliances domain frequently. The keen competition environment force enterprise seeks the new survival development opportunities.

2.2 The Transnational Operations Become the Enterprise Development Requests Generally Under the Economic Globalization

The economic globalization take element of production transnational flowing as the main manifestation, take various countries economy mutual dependency enhancement as the characteristic, had reflected various countries economy integrated tendency in the production, assigns and expends various links, the essence of this tendency is that carries on the resources deployment in the world scope. That is the economic globalization causes the barrier which the element of production transnational flow getting more and more small. In addition, the information technology, especially network

technology development, reduced each kind of economic activity transaction cost enormously, and reduces to the transnational activity transaction cost prominently (WANG, 2003). Element of production unrestricted flow as well as optimum composition in global scale, changed the enterprise survival and development condition. Haier's practice indicated that under the economic globalization, the enterprise will globally mix the element of production to have the low production cost and the strong competitive power, simultaneously also explained that enterprise transnational operations will become enterprise's general request under the economic globalization condition, this also will be the external power which the enterprise will walkout.

2.3 The New Trade Protectionism Force Enterprise Carries on Transnational Operations

Under the World Trade Organization rule, while the international trade moved toward the liberalization to present some new trade protectionism, this increase the difficulty for the enterprise carried on the international trade, the enterprise only then through walkout, could bypass these barriers. Under the economic globalization condition, many developing countries provide various kinds of favorable conditions particularly for attracting foreign merchant direct investment, for instance, India carries on trade protection, but the enterprise may through to furnished raw material processing, export assembles or the half-finished product to India and so on, bypasses the trade protectionism, develops the Indian market (WU & ZHANG, 2003). In addition, for instance, in government procurement question, in order to protect national enterprise development, various country's governments solve national employment, draw up each countermeasure in abundance, such as the US government purchases volume of electrical appliances to be big every year, but had stipulated a very strict standard to the electrical appliances purchase, is that any brand of the product must be produced in the US, therefore only then the enterprise which investment and production to the local, only then has the qualifications to carry on the bid. The Haier Group precisely relies on its manufacturing in the US, but is selected in US government procurement.

3. THE SUPERIORITY OF HAIER TRANSNATIONAL OPERATIONS

3.1 The Method of Mature Product and Local Produces Unifies Make the Enterprise Maintains the Low Cost Superiority

The enterprises transnational operations are generally starts from the export. Regarding the mature product, when exporting develops certain stage, in order to follow the overseas market development, the enterprise must carry on the comparison, and determined which modes

of business operation do serve the enterprise benefit. when enterprise's sum of home production cost and the export selling costs is smaller than sum of the overseas production cost and the extra coordinated cost or is smaller than sum of the overseas production cost and the technology lose cost, the enterprise will choose the export trade to carry on the international management, otherwise, the enterprise will choose the direct investment pattern to take part in the international management. Looked from Haier's foreign direct investment that part of investments concentrate in the developing country, by now the overseas production cost compare with domestic production cost did not have the too big disparity, that must carry on the coordinated and the managed cost comparison (Lu, 2001); Part of investments carry on the developed country, although the production cost compare with domestic cost has some disparities, but because has avoided each kind of trade protectionism as well as through implementation localization production operation, the extra cost which management and coordinated production operation to reduce greatly, because the electrical appliances belong to the mature technology, its technology loses cost quite to be also small, in addition the market absorption capacity is big, the enterprise may carry on the scale production, thus makes the scale progress, the production cost to be reduced greatly (LIN, 2001). In brief, the enterprise in the overseas production's total cost compared to domestic low is key elements which enterprise transnational operations.

3.2 The Market Chain and the Value Chain's Union May Bring Superiority of High Efficiency Management for the Enterprise

The traditional value chain theory to believe that enterprise each production and operating activities may create the value, these incident cross-correlation's activity constituted a creation value dynamic process, namely the value chain, it may form the enterprise optimization and coordinated competitive advantage (ZHANG, 2002). The market chain with tradition value chain has certain relatedness, but place of the two biggest difference lies in the attention object difference, the value chain stresses on consideration enterprise interior each kind of production and operating activities, stressed that internal each activity optimum composition and coordinated, creates a greater value for the enterprise, but the market chain pays attention to the enterprise exterior market demand, restricted and adjusts the enterprise interior each kind of relations take the demand as the guidance, the market chain innovation is lying in it to adapt the local market demand and the modern business management new tendency, namely take market demand as guidance, but do not take the enterprise production as guidance.

The market chain and the value chain union had guaranteed that under take the market demand as guidance prerequisite causes the enterprise value chain to rise in value for the biggest goal. For example, Haier carry

on adjustment the enterprise organizational structure to achieve the market chain and the value chain's unification (XU, 2001). First, take the function of financing, purchasing and selling which belongs to the original each business department to separate completely, conformity becomes the department of commercial, material distribution and fund which independent management, implements unify marketing, the unification purchase, the unification to settle accounts in the entire group scope. Next, carries on the original function management resources conformity, such as function management department and so on human resources development, quality control, information management, legal security to separate completely from the business unit, take group function center as the main body, form the independent management service company (NIE, 2002). Finally take these specialization flow system through "the market chain" to connect and integrate, the group forms the core flow system of complete material distribution and commercial interchange which faces market as well as the supporting flow systems of technology quality control, human resources management and equipment management, thus Haier market chain flow pattern had unique characteristic which organizational structure "flattening", flow relations "marketability", movement conduction "informational" and "take the customer service as the center".

3.3 The Post-Sale Service and the Product Unification May Create the Difference Product Superiority

The enterprise management idea must transform in transnational operations, what namely from provides high quality product for customer to extend to the product post-sale service and the technical support and so on each kind of servicing activities. Because of along with the technical unceasing development, depends upon the science and technology to have the competitive advantage and to earn the excess profit difficultly to maintain, many product's fabrication technologies level are more difficulty improved, even if the manufacturer to produce the high scale difference product, also be imitated by other manufacturer very quickly. Therefore the enterprise want to win the consumer, must provide better products and the service unceasingly for the consumer (ZHU & LIU, 2005). Especially service station creation competitive advantage is not easily imitated by competitor. Because the service station brings the unique advantage stems from the endeavor which the enterprise unique background, the operational policy and the enterprise culture accumulate over a long period of time, even if has the mocker, its cost is also very high. Haier's transnational operations have also manifested this characteristic (CHEN, 2005). The Haier Group once proposed "changes service industry from the manufacturing industry" slogan, its essence is the reality industrial shifting by no means that but is the ideal

industrial shifting, in fact is that take the customer satisfies as the goal management idea shifting. This kind of shift means that Haier will not only provide the pure product to all customers, but will maximum limit make the customer satisfied "Haier service". "Haier service" is not only the pure service, is also not only the pure product, but is the service and the product conformity.

3.4 The Innovation Technology and the Market Need Unify May Bring the Market New Demand Superiority

Chinese transnational operations of enterprise has the technology which mostly to maturely, to be suitable. These technologies also have the technological innovation problem. But this kind of innovation "new" main performance to improve and enhance, it must follow three basic principles: First, technological innovation goal internationalization principle, even if each technological innovation embarks from the high beginning, considered from the global scale, comprehensive dynamic understands the present situation and the trend of development of this technical, use international scientific research achievement formulation main development direction (HU, 2002), such as Haier develops the refrigerator which does not have pollutes and ultra energy conservation; Second, the technological innovation topic marketability principle, namely take the market as the guidance, make the scientific research development topic and the user difficult problem unifies, consumer's disaffection and the suggestion are the technical difficulty, the enterprise carry on the research and development surrounding the difficult problem, causes the achievements in scientific research "to create the market and creation user", such as Haier develops the young child prodigy washer has satisfied the summer market potential demand enormously; Third, the technological innovation achievement commercialization principle, this principle essence is that examination for two principle. Meanwhile, according to the market potential demand and the segmentation principle, carries on unceasing diversification development to a product, causes the product serial, meets the different level consumer needs (XIAO & WANG, 2005). For example, the Haier Group has established the overseas design branch in Los Angeles, Amsterdam, Tokyo, Lyons, Montreal and the American Silicon Valley, helped the enterprise to develop the electrical appliances product which specially suits the native market needs, Haier has already produced the different function electrical appliances product which suited European, US, Asian different consumer needed, thus quick enhancement enterprise competitive power.

3.5 The Enterprise Holding Stock and the Brand Unify May Obtain the Economies of Scale Superiority

According to the economic principle, economies of scale, the brand and the product differences may become the important superiority of the manufacturer competition

under the condition of not completely competes. According to Haier's experience, the enterprise will carry on the transnational operations, must acquire the brand consciousness, and creates the name brand. The commodity which does not have the brand will open and sizes the market difficult (WANG, 2005). But the brand is complements with the economies of scale, the enterprise has the brand to have the market, has the market to have the scale production, has the scale to produce can bring the scale benefit. Haier Group's overseas subsidiary company mostly adopts the joint capital way, annexes the existing overseas enterprise. This way compare with constructs the new factory in the host country or selects the sole ownership method, has many superiority: First, may reduce the project construction cycle, reduces the capital outlay, expands the enterprise production and the management scale rapidly (LI & ZHANG, 2005). Next, may hold original market of enterprise directly which is annexed, and using its sales system; Once more, selects the joint capital method to be possible to obtain the technical monopoly and so on intangible asset which the enterprise development to need. At the same time, many Haier's foreign investment which carries on actives of controls stock, thus enables the Joint venture which establishes newly to carry on the production and sale by the Haier brand, guarantees the Haier product quality and the product prestige. In brief, carries on the production and sale through both of annexation and holding to be able to guarantee the product brand quality, and can have the economies of scale effect, causes the brand and the economies of scale interactive effect very quick reflection.

4. THE HAIER GROUP'S ENLIGHTENMENT TO CHINESE ENTERPRISE TRANSNATIONAL OPERATIONS

4.1 Strength the Government Support Dynamics to the Enterprise Transnational Operations

From the enterprise angle analysis, many Chinese enterprises does not have Multinational corporation's certain monopoly superiority, it is more important that discovers and use overseas geographical superiority, specially uses and shifts these geographical superiority, causes enterprise certain relative superiority and geographical superiority union full and stimulation enterprise's potential power (TANG & DONG, 2003). The government should concentrate the partial resources to support and help to these enterprise's transnational direct investment, causes the enterprise maintains competitive ability continually, realizes the state economy swift growth finally. from the enterprise which already "walkout" analysis that these enterprise mainly concentrates in the major industry enterprise group and the Private enterprise, such as Chinese petroleum, Chinese petrochemical, Haier,

outstanding Private enterprises and so on. The government should enlarge key prop to these two kinds of enterprise, consummates the foreign investment legal framework diligently. The Chinese government should seize the current world economics worn out proper time, draws up favorable policy which encourages comprehensively, such as the economical support policy, provides the information consultant service policy and the tax exemption incentive policy.

4.2 The Enterprise Should Raise Own Competitive Advantage

The enterprise carry on the transnational operations, must discover own competitive advantage firstly. It is not balanced as a result of the various countries' economic development, market economy degree of development, science and technology horizontal, comprehensive national strength and so on because of country, but different. Therefore, each country and the area have the relative different speaking of the invest demand, scale and level, enterprise's superiority are also precisely the relatively different market, the different competitor (HAN, 1997). Next, considered from the strategic angle that the enterprise should raise own competitive advantage diligently. The enterprise has some special superiority which exceeds Domestic enterprise, can successful carry on transnational operations. To be specific: First, core property superiority. This superiority mainly manifests in the enterprise holds to the intangible asset, such as patent, trademark, trademark, technology, information and so on; second, economies of scale superiority. this economies of scale superiority both emphasizes the large-scale centralism production, and stressed that the unproductive activity scale efficiency, it including the centralized research and development, establishes the large-scale sales network, as well as carries on the centralism market buying and selling, fund raising and the global administration and so on; Third, internalization superiority. As a result of the market completeness, each kind of superiority which the enterprise has weakens even loses in the exterior market utilization, therefore the foreign Investing enterprise has the intense internalization tendency, establishes the internal market to substitute for the exterior market; Fourth, the organization management superiority. Including high efficiency organizational structure and high level managed capacity. In brief, the transnational operations are the enterprise development necessity (ZHANG, 1998); the enterprise must raise this superiority consciously, after these superiority has certain foundation in domestic, through the transnational operations and the local geographical superiority union, the enterprise will accumulate and develops these superiority quickly, will form the formidable competitive advantage, will thus enter the positive cycle road of the development.

4.3 Speeds up the Step of the Business Management and International Market

The successful enterprise think the elements of enterprise management level, and the management quality important extremely, because the enterprise only has the good business management then to be able to guarantee that the fund obtains the most appropriate utilization, can display maximum of the product and technical superiority. Only establishes the perfect modern enterprise system, defined property and right relations, and establish the self-restraint and the self-development management mechanism truly, the enterprise will then have the vitality and the competitive power, the enterprise can take the market as the foundation decide that own supplies direction and the price level, will accept the restraint of the production-factors market and the product supply the market price mechanism, simultaneously through adjust own production and operating activities by the market adjustment (GAO, 2003). Therefore in enterprise transnational operations, in with internationalization trail connection process, regardless of from the management method or the thinking mode must with the international trail connection, achieve the profit maximization goal finally.

4.4 Creates New Technical

Chinese enterprises which carry on the foreign investment to lack the technical superiority generally, innovation ability not to be strong generally, this has restricted the international competitiveness enhancement to a great extent. But Chinese Enterprise certain mature technologies have the relative superiority compare with certain professions and certain enterprises of some kind of developed country (LIU, 1997). Although the technological innovation decides to the market development and the technical new breakthrough to a great extent, but the technical mobility enables the enterprise to reform in the suitable scope, causes it to suit in the local condition, thus enables the technology itself to obtain development and enhancement. This kind of technology's change process follows certain developing procedure, and it is irreversible, and has the innovation nature to a great extent. Therefore, the enterprise besides expands the science and technology input, to create the high technology and new technology diligently, should carry on the technical knowledge localization in the transnational operations, unifies the existing mature technology and the local market requirement, research and development new technology (Wang, 2002), thus makes certain transformation to the product, specially when works as some national market to be big, consumer's personal status and purchase ability have the very wide difference, after enterprise's suitable technology, the mature technology, the transformation technology and innovation technology had the corresponding development opportunities, causes the product which it produces to satisfy the different expense level need.

4.5 Consummation Capital Operation Management Positively

Once to have the economist to predict, Chinese economy status in international economy order will be decided by Chinese large enterprise group in world economics status in the future. Chinese existing enterprise size is generally small, the industrialization rule proved that only has in the enough scale of production, under enough full operation condition, the enterprise can have the progressive improvement internal management, uses the vanguard technology equipment, reduces the consumption, also because just had the scale production, the brand competition only then obtains the most powerful material base (TANG, 2001). Chinese Enterprise foreign investment fund shortage, the overseas enterprise universal scale is small, the mentality of overcomes this barrier, one is that carries on overseas financing, plays financial leverage role fully, besides obtains the financial organ loan, the most main fund raising method is that use foreign capital market fund raising, including outstanding share, bond as well as use leveraged lease method raising fund. Specially using the stock way to payment purchase fund in the enterprise transnational purchase day by day common, this way materially is that use country capital market of the enterprise which is purchased and collection purchase fund. Second, considered that set up the office or factory in some small and medium-sized town and cities. The factor prices of this kind of area relatively are generally inexpensive, also correspondingly to have some tax preference policy. Third, may choose the cooperative business operation to enter the market, thus may alleviate the fund shortage pressure, but may also share the existing resources market channel.

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