

A REVIEW INTO THE
INTERNATIONALIZATION
PLAN
OF HISENSE COMPANY

Group project
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Introduction

HISENSE company is a Chinese electronic information industry group. The Hisense group was a state – owned enterprise, which includes two traded companies, Hisense Electric Co Ltd, listed and Hisense Kelon Electrical Holding Co Ltd, with five famous brands: Hisense, Kelon, Rouschen, SAVOR and Hisense – Hitachi.

According to the Hisense official website, Hisense owned more than 40 subsidiaries and its products are sold in over 200 countries and regions throughout the world.

In terms of awards and achievement, Hisense has been the recipient of many domestic and international recognitions and awards in the name of innovation, technology, design, and quality management. For instances, in August 2007, Hisense Azure Coast home theatre won the 2007 German iF Industrial Design Award (Hisense Australia website).

In terms of strategic partnership, Hisense has partnership with IBM, Hitachi, Whirlpool, and AMD for developing information technology and electronic products.

In Australia, Hisense Australia Pty Ltd was established in 2006, which is a subsidiary of Hisense Company Ltd. headquartered in Qingdao, China. Its objective is to “gradually introduce the full range of Hisense products into the Australia market”. (Hisense Australia website, 2009)

This report will analyse the internationalization plan of Hisense from China to Australia.

2.0) Literature review

2.1) Investment related theories

Enterprises, large and small companies from all countries are already or are in the process of going global.

As estimated by the United Nations, there are approximately 70000 transnational enterprises with more than 690000 affiliates that total annual sales amounting to almost US\$19 trillion of 2005 and employ more than 75 million people worldwide. (World investment report, 2005)

The point is that international business is not only the domain of large firms in developed countries but also a playground for small or medium enterprises in developing or emerging markets, in which China is one of the most important emerging markets and producers which has experienced in the highest economic growth of BRIC (Brazil, Russia, India and China) since 2003, with an annual rate of 10.7% between 2003 – 2008 (Euromonitor, 2008)

In the trend of business globalization, there are many related theories which focused on investment on different perspectives. For instance, Vernon explained investment as a necessary step in the life cycle of products. Knickerbockers focus on the relationship between Foreign Direct Investment (FDI) and rivalry in oligopolistic industries. Others might explain foreign investment in the perspective of eclectic paradigm or location specific advantages (Dunning, J, (Krugman, P (1995)). All of those were found on many traditional international business theories such as Comparative advantages or national competitive advantage of Michael Porter and new trade theories such as economies of scales, first mover advantages or Product life cycle theories indicated above.

2.2) Motivation of investment

In terms of motivation, in this report, the motivation of investment could be explained by the eclectic paradigm theory: Investment brings about benefits for both sides, on the multinational companies perspective as well as on host country or home country perspectives. The main motivation for the multinational company to invest might be to gain competition advantages, as explained by Knickerbockers and John Dunning.

2.3) Investment strategy

A firm's strategy refers to the actions that managers take to attain the goals of the firm in order to boost profitability and profit growth.

As explained by Simmonds, K (1999), the effectiveness of the internationalization plan might depend on many factors such as the timing and mode of entry. In terms of entry strategy, there are different ways for a multinational firm to go global or invest in other foreign countries, such as direct investment through mergers and acquisition or Greenfield investment or indirect investment through joint and venture business. In terms of timing, there could be different strategies of investment depend on different stages of the development process of one company within the international business environment.

Moreover, there are four basic strategies for a firm to compete in the international environment: global standardization, localization, transnational or international strategy. The way a company chooses its strategy depends on the pressure for cost reduction and local responsiveness in the industry.

2.4) Risks of international investment

To operate in foreign countries, the multinational companies will face some extra difficulties compared with investment in domestic countries. In evaluation and assessment of risks, many aspects should be taken into consideration. They include financial, political, economy, social and cultural.

In terms of financial risks, firms should consider of many risks related to the changing in exchange rates that could affect the business profit such as transaction risk, translation risk or economic risks (Chamon and Prasad, 2007). In terms of political or economy risks, firms should consider of the nature of the host governments' involvement in the economy. In terms of social and cultural aspects, the risks of going global rose from the complexity and unpredictable nature of different culture and societies. Those risks would be analysed and evaluated in other parts of the report.

3.0 Methodology

3.1 Research objectives

The main objective of the research is to evaluate the advantages and risks of HISENSE's investment to Australia and assess whether HISENSE invested to Australia market is reasonable. This study will focus on the analysis of financial, political economy, social, cultural and internal structure and strategy advantages and risks of the international investment.

3.2 Methods of data collection

To collect the data is a key factor to make the research. It refers to the step of collecting information. The data about HISENSE's investment to Australia market includes two aspects. First is HISENSE Company's data collection. The data mainly includes company's financial report, company structure, strategy, market, and so on. These data can be obtained from its official site. Second is Australia market. This aspect includes financial, political economy, social and cultural, and so on. These data needs to be collected through many resources.

3.3 Research strategy: qualitative approach

Quantitative research is to entail the collection of numerical data and exhibit a view of the relationship between theory and research as deductive, a predilection of natural science approach, and have an objectivist conception of social reality (Aniston, 2008). Qualitative approach is kind of research strategy which mainly focuses on words rather than quantification in collection and analysis of data. Also it aims to have an understanding of a social world.

4.0 Description and measurement of the foreign investment

4.1 Financial and economic aspects

Finance is the core of modern economy and financial markets are the arteries of the market economy. The high-risk nature of finance itself and the financial crisis domino make the financial system safe, efficient and stable operation of the overall economic stability and development. Financial risk can lead to the loss of financial for a multinational company. In current economic market, financial area is the area which has most fierce competition and highest risk degree. For HISENSE, if it makes investment to Australia market, it may have financial risks in two aspects.

First is foreign exchange risk. If HISENSE invests in Australia, it should adopt the use of its domestic currency, and uses USD or AUD. This means it needs to change RMB into USD or AUD. The risk is if the exchange rate changes, HISENSE may get loss. For example, now the exchange amount for RMB to AUD is 100 RMB=16.01 AUD and the exchange rate is 0.1601.

When the exchange rate decreases, it means HISENSE use the same RMB to get less AUD. This would lead to a loss of financial. Also for USD, now the international exchange rate is not stable because of the world-wide financial crisis, and the USD exchange rate is affected greatly (Williams, 2003) The unstable exchange rate is adverse for exchange market. If HISENSE cannot rightly calculate exchange rate trend, there will be unexpected financial loss.

Second is the risk of banking institution. In the stable economic period, the risk of banking institution is low. However, now because of the impact of financial crisis, banking institution is not stable in world area. Many banking institution has went bankrupt. This situation is adverse for international investment.

4.2 Political and legal aspects

Political economy risk means a company gets economic loss because of political impacts. For HISENSE, the source of political economy risk is the changes of domestic political environment or politics and external relations in China or Australia. These political changes can have neutral effect on HISENSE Company. It may have a positive effect, that is conducive to foreign enterprises and investors, and thus bring about economic benefits to the latter; it may also have a negative effect, which is not conducive to foreign enterprises and investors, giving them economic loss. The political risk is the latter, that is, a country place in politics to give foreign companies or investors to bring certain changes in economic losses. According to research, now the political environment in both China and Australia are very stable, and they often keep a normal and encouraging politics and external relations (World investment report, 2007). Now China government encourages local companies to invest in international market, also Australia government has policies to attract foreign investment. So according to current political economy situations in China and Australia, HISENSE has very low political risk if it invests in Australia.

4.3 Social and cultural aspects

Social and cultural risks are often ignored by many foreign investors because they don't have direct relationship with financial risks, but they can have great effect on international investment. For HISENSE Company, it may face with three cultural and social risks in its foreign investment.

First, the company who invests into international market is sometimes recognized as an outsider, and it may cause domestic resentment caused by consumer groups, competitions and government officials. For example, China consumers have boycott mood for Japanese companies, and Korea supports domestic products very much. So a company may face with problem as above condition in an international investment. For HISENSE, it is a Chinese company; China and Australia always keep a good political and economic relationship with each other for many years. So there is low risk that Australia customers or government will boycott HISENSE's products. Also, some Chinese multinational companies, including LENOVO, Haier and CHANGHONG, have successfully entered into Australia market. Many other multinational companies from other countries develop very well in Australia (Zhao, 2006). This shows Australia customers don't

5.0 The impact of global competition

HISENSE Company is in business of household appliances. Now the global competition in household market is very fierce. In Australia market, there are some strong multinational household appliances companies have successfully entered into the market, including CANDY, from Italy, LG, from Korea and Siemens, from Germany (Hopkins, 2006). Also the research shows that some other multinational household companies have planned to enter into Australia market. So HISENSE will face with fierce competition from global competitors and potential competitors in Australia market. Compared with these global competitors, such as CANDY, LG and Siemens, HISENSE has three disadvantages. First is brand effect. These global competitors have enjoyed world famous brand effect for many years, and have been considered as the top in global industry. Although HISENSE has entered into some international markets, its brand effects cannot reach to the degree of these global competitors. Second is technology. In China domestic market, HISENSE is advanced in technology and it pays much attention to technology innovation. However, compared with many developed and high technology countries, China is still a developing and middle technology country, which decides HISENSE doesn't have wonderful technology base. Third is management and marketing. These global competitors have rich experience in international investment management and marketing. However, HISENSE also has its advantages. First, it has price advantage. Since labor force and material cost is low, this is helpful to low price. Second, HISENSE's products are of high quality.

6.0 Assessment of the strategy used to enter Australia market

HISENSE has invested in many international markets, including Hungary, France, Algeria, Egypt and America. HISENSE's foreign investment strategy is direct investment. It direct invests capital in international markets to establish production bases, marketing mechanism and sales stores in the target market. In France, Algeria and Egypt, it has established individual ownership. For direct investment strategy HISENSE used to enter Australia market, there are mainly three advantages. First, HISENSE can get investment reward from Australia government, and direct investment is helpful to save freight charges. Second, since direct investment can bring opportunities for Australia, it is very helpful for HISENSE to set a good image in Australia and

improve localization (Mashall, 2007). Third, HISENSE is easy to establish close business relationship with local government, customers, suppliers and distributors. Forth, direct investment can make HISENSE easy to collect information and improve products to quickly suit to market environment. However, there are also risks. First is exchange rate risk. If AUD devaluates, it will affect HISENSE's financial operation. Second is market change. If the Australia market deteriorates, the direct investment strategy will lead to largest loss for HISENSE.

7.0 Conclusion

In general, the report analyses and measures the risks in financial, political, social and cultural aspects for the investment of HISENSE company in Australia market. There was also the impact of global competition on its strategy.

According to the above analysis and assessment, it could come into the conclusion that there are little risks for HISENSE to invest in Australia in terms of political, social and cultural aspects, but there might be risks in terms of financial aspects and market. Financial risks are mainly caused by world financial crisis, but Australia and China are not much affected by financial crisis. Moreover, from 2008 the financial situation is turning better. In terms of market risks, HISENSE could reduce the risks by further research and analysis of Australia market.

Therefore, although there are potential risks, it is reasonable for HISENSE to invest in Australia market.

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