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# Internationalization of East Asian High-Technology MNEs:

## Comparing Japanese and Chinese Market Entry Strategies in the European Market

### Topic and Research Question

Sparked by an increased scholarly interest in recent Chinese M&A activity in Europe, this thesis investigates the research question of what similarities and differences can be observed in the international market entry strategies of Japanese and Chinese high-technology MNEs in the European market. The noticeable similarities between the perceived threat of an East Asian nation taking over Europe in the 1980s, and the current news coverage on Chinese MNEs, as well as the distinct focus on technology-intensive sectors of the economy, provide fertile grounds for a comparison.

### State of the Art

This thesis is founded on an eclectic framework of analysis founded on the industry-based, resource-based and institutional views of internationalization theory. In the industry-based viewpoints, Porter's Diamond Model of International Competitiveness is influential. The Eclectic paradigm for resource-based viewpoints and the Uppsala Internationalization Model from the institutional perspective helped developing the thesis. Country-level theories like Latecomer Economy Theory and the Life-Cycle Theory, as well as theoretical additions like network theory and entrepreneurship are discussed in the State of the Art.

The research gap opens due to a fragmented and single-level-of-analysis approach in much of scientific literature discussing Japanese and Chinese market entry strategies. Frameworks discussing high-technology internationalization on country, industry and firm level remain undeveloped and scholarly work on the entry strategies of East Asian in the European market were scant. The thesis therefore aligns with the more recent focus on East Asian firm entry processes into the European market.

### Methodology and Approach

Two East Asian home appliance MNEs, Daikin Industries and Midea Group, were analyzed in a comparative case study approach, applying an eclectic framework of analysis. Data was collected from databases, firm reports, secondary literature, websites, etc. and analyzed via the theoretical framework derived from mentioned theoretical viewpoints, on the country, industry and firm-level.

Company	Company Age	Company Size	Major Industry Type	Ownership Structure	International Business Experience EU Market
<b>Daikin Industries Ltd.</b>	94 Years (Daikin Industries Ltd., 2018a)	70.000 Employees (Daikin Industries Ltd., 2018a)	Home Appliances, Chemicals, Defense Systems, Electronics (Daikin Industries Ltd., 2018a)	Private Stock Company (Daikin Industries Ltd., 2018a)	48 years (1970)
<b>Midea Group</b>	50 Years (Midea Group, 2018b)	126.000 Employees (Fortune, 2017)	Home Appliances, Electronics, Logistics, Robotics (Midea Group, 2018b)	Private Stock Company (Chen, 2014)	38 years (1980)

Figure 4 Case Selection of Japanese and Chinese MNEs According to Control Variables

### Main Facts

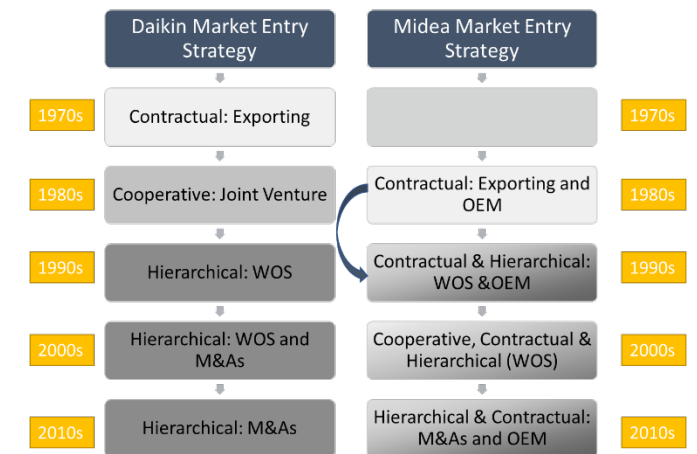
On the country level, similarities between Daikin and Midea include an attractive host-market size, strong market concentration at the time of market entry, stable government intervention and similar levels of political openness. Country-level differences were domestic market demand, host-market dynamism, cultural distance, economic stability at the time of market entry and varying host-market production factors in relation to domestic market factors.

On the industry level, both Daikin and Midea had similar industry structures in terms of local industrial clusters and possible productivity advantages of MNEs. In industrial policy, both firms enjoyed the policy support of national and local government, as well as the support of government ministries. Industrial competition for both firms was increasingly intense in both domestic industries since the 1990s, creating an oligopolistic environment. Daikin and Midea's industry structure differed in development of industry size over time and market demand at the time of European market entry. Industry policy in Japan at the time of Daikin's market entry was less restrictive regarding outwards investment, focused on environmental concerns earlier and supported the industry less directly than industry policy in China. Industrial competition also differed for both firms at the time of market entry, as Daikin experienced less competition in its domestic market compared to Midea at the time of its European market entry.

On the firm level, both firms manufactured products with a similar level of technology-intensity, earning a large share of revenues in the HVAC business. Both firms depended on foreign firm technology to enter the European market with non-differentiated and non-adaptable products. Both firms also emphasized the development of a differentiated and adaptable product portfolio for the European market in the 2010s. Strategy similarities were the emphasis on revenue growth and technology upgrading since market entry and an

emphasis on localization, market expansion and product differentiation in the 2010s. Midea's strategy in the 2010s was like Daikin's strategy of the 2000s regarding aggressiveness, as well as goals and objectives. For firm capabilities, both firms were integrated into business and production networks, strove to improve their dynamic capabilities and developed their technological capabilities from external dependency on foreign firms to in-house technology capabilities. Both firms further lacked international management capability and improved their financial strength since market entry into Europe.

Daikin started out as the larger organization but was overtaken in size by Midea in the 2010s. Product features differed in technology-intensity at the time of market entry, the development of size and content of product portfolio and the development timing of differentiated and adaptable products for the European market. The analysis of the strategy revealed an earlier and more aggressive strategy development on Daikin's side. Goals and objectives were more extensive at the time of market entry and for the following decades for Daikin, as the firm, besides domestic market expansion and technology upgrading, focused on global market expansion, product differentiation, and localization. While Daikin employed an aggressive strategy in Europe, Midea depended on a hybrid model of non-aggressive and aggressive strategies. Regarding capabilities, firms differed in sourcing and price value and competitive price and quality structures of production. The timing for developing innovation and R&D capabilities and technological capabilities left Daikin with better capabilities compared to Midea. Both firms also differed in their timing of marketing capability development. Financial strength as a capability was dissimilar regarding the development of debt ratio. The timing of learning capability improvement and the focus on in-house training, international training and R&D guidelines, mention of learning in strategic intent and availability of control systems differentiated Daikin from Midea. Daikin also developed stronger international experience since its European market entry. Entry mode choice differed in its sequential structure over time. Daikin quickly moved from contractual, to cooperative and then to hierarchical entry modes only, while Midea employed contractual entry modes for decades before diversifying through hierarchical entry modes. Daikin's and Midea's entry mode characteristics differed from the time shortly after market entry onwards in hierarchical control, resource commitment, ownership, flexibility, and technology risk. Despite growing similarities in the 2010s in entry mode characteristics, Midea's continuous OEM causes a difference in entry mode characteristics.



### Results

The findings confirmed existing theoretical observations on Japanese and Chinese MNE market entry strategies into developed country markets. Daikin's market entry strategies fit best with the basic sequence of the Uppsala Internationalization Model, while Midea's market entry strategies fit best with the typical Chinese "latecomer" sequence for entry into developed-country markets. Further, entry strategies during the initial entry into Europe were found to be similar and to have converged increasingly since 2010.

### References

All references can be found in the full version of the MA thesis available at <http://othes.univie.ac.at/>

### About the Author

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