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Original Article

How large Chinese companies establish international competitiveness in other BRICS: The case of Brazil

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Abstract Based on an abductive approach, a case study is performed on two Chinese multinational corporations (MNCs) operating in the construction equipment industry. These firms do not yet compete directly with major global firms. The reason for this is that Chinese firms have mainly built up international competitive strength in the low-price segment. A major result is a theory on the initial internationalisation strategy of Chinese firms. The main strategic counter-move by European MNC and other major incumbents seems to be to enter the low-price segment in emerging markets, for example, by acquiring local Chinese brands.

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The Problem

Foreign direct investment (FDI) by Chinese companies has been increasing steadily over the last decade or so. Until 2004, the dominant motive for investing abroad was to seek new markets, which has increasingly been complemented by resource-seeking and asset-seeking investments (Buckley *et al*, 2007; Alon *et al*, 2009; Lu *et al*, 2010).

A major feature is massive investment in the emerging markets of Asia, Latin America and Africa. Contrary to the investment behaviour of most firms, FDI increased during the Great Global Recession of 2009–2010, in particular in asset-seeking investments that Chinese firms used to take advantage of opportunities to buy under-priced assets. The Chinese government has flooded the market with

liquidity, produced a massive stimulus and created massive spending on an unprecedented scale. One main driver behind the Chinese Government's support is to strengthen and develop global competitiveness by transitioning emphasis from cost advantages in low and medium-tech industries to differentiation advantages in hi-tech industries. This has helped Chinese firms to challenge the incumbents of many global industries. According to Söderman *et al* (2008), Chinese firms prefer to trade with and invest in European markets.

However, this priority now seems to have shifted due to major changes taking place since 2009. The United States' recovery from the great global recession has been slow, and the Economic and Monetary Union (EMU) countries are also experiencing economic turmoil from the euro crisis. Many emerging markets, on the other hand, especially the BRICS (Brazil, Russia, India, China and South Africa) have continued to grow, and today represent 25 per cent of global GDP and over 60 per cent of global growth (Harle *et al*, 2012).

This increasing South-South FDI and trade could have far-reaching consequences for the Euro-Asia business relationship, *inter alia* by reducing Chinese investments in Europe. There could also be an indirect effect on this relationship of increased competition from Chinese firms for established European firms in emerging markets, for example, Brazil, creating a more complex trilateral Euro-Asia-Americas rivalry. The major question studied here is then how large Chinese firms can become competitive in global markets, namely the strategic process of gradually building competitive advantages, initially at home and later in foreign emerging markets. The main strategic drivers, both internal and external, behind this development are studied. The implications for Euro-Asia business relationships from this increased competition in 'third-party' markets are also discussed.

This article focuses on large Chinese companies, which have stronger support from local authorities and government for global ambitions than smaller firms (Keister, 2000; Zeng and Williamson, 2003; Deng, 2004; Wu, 2005; Buckley *et al*, 2007). We build on Child and Rodrigues (2005), who examined the essential drivers in different strategic positions of Chinese firms by looking at the impact of pricing and product positioning strategies (Söderman *et al*, 2008). Thus, there is an empirical research problem, because information on the international business strategy of Chinese firms is barely existent. But there is also a theoretical research problem. We agree with Alon *et al* (2011) that existing theories can satisfactorily explain the globalisation of Chinese enterprises. However, it is unclear which theories in the strategy field are valid for Chinese firms internationalising, especially for the particular problem studied. Before any major study is done, it is necessary to research which theories can be extended to and developed for the international strategy problem at hand. Following Rugman (2010, p. 353), we combine multiple theoretical approaches to offer a richer explanatory terrain, using a resource-based view together with institutional and internationalisation theories to explain the developments studied.

Thus, the main purpose of this study is to describe and find explanations for how large Chinese firms gain competitiveness in emerging markets. This will be done through a case study of two Chinese multinational corporations (MNCs) operating in the construction equipment (CE) industry, by examining their strategies for taking off from China and entering Brazil. Global competition is intense in the CE industry, being both highly globalised for many years with a few major dominating global firms (Caterpillar, Komatsu and Volvo CE) and having a large number of regional and local players.

Besides China, Brazil was selected to represent another major emerging market in the South. China-Brazil trade ties propel BRICs cooperation. China had already replaced the United States as Brazil's largest trading partner in 2009. Furthermore, the trade between China and Brazil expanded from US\$6.68 billion in 2003 to \$75.46 billion in 2012 (*China Daily*, 2013). Brazil's role in the global economy is growing rapidly, for example, it is predicted to advance in global economy rankings from 15th in 2005 to 4th in 2015 (Minevich and Richter, 2005). Brazil has invested approx. \$650 billion in infrastructure recently and domestic investments of almost \$960 billion will occur in 2011–2014, *inter alia* in infrastructure for the World Cup and Olympic Games.

The structure of this article is as follows: After the problem discussion, we describe the methodology on how we collected and analysed data on the CE industry in China and Brazil. Since a theory on initial internationalisation strategy, in accordance with the abductive approach, was developed gradually during the case study, it is presented after the methodology section. Next, the results are reported, followed by an analysis of take-off and entry strategies. The conclusions and limitations end the article.

Methodology

Judging from previous research experience from emerging markets (Child and Rodriguez, 2005; Jansson, 2007a, b; Cardozo and Fornes, 2008; Söderman *et al* 2008; Jansson and Söderman, 2012), one cannot assume that the internationalisation of Chinese firms occurs in the same way as that of firms in mature economies. Therefore, there exists both a theoretical and an empirical research problem. The former is our main problem, which is solved by extending extant theory and adapting it to the research problem. The main concern is then to study the validity of theory and develop theoretical models, rather than to confirm existing theory. To succeed in this, the theory is empirically grounded, using a holistic approach to deal with the boundary between firms and environment. Here, in-depth case studies are suitable (Merriam, 1998; Scholz and Tietje, 2002; Yin, 2009; Welch *et al*, 2011). To solve the two problems, it is necessary to combine deduction with induction in the same research process. Such a methodological approach is defined as abductive

(Josephson and Josephson, 1996; Dubois and Gadde, 2002; Alvesson and Sköldberg, 2008; Jansson and Söderman, 2012). Theory and method are interrelated (Van Maanen *et al.*, 2007). The abductive approach rests on the limited possibilities of generalisation of various theories in time and space. Extant theory is developed in parallel with empirical fieldwork and case analysis, where the final aim is to create a solid theoretical and empirical base, and at the same time to strengthen the practical validation of the research by making the results relevant for organisations and society.

An embedded case study method is used to integrate qualitative and quantitative knowledge (Scholz and Tietje, 2002; Yin, 2009). Owing to the focus on the theoretical problem, the abductive process was initially deductive with a careful, theory-led, selection of cases. The suitability of various theories was studied and complementary concepts were induced from the data and related to extant theories. This resulted in the development of a suitable theory for the reality studied. This final result of the abductive validation process is presented below as a tentative theoretical framework.

To get information on the industry in general and in China and Brazil in particular, informant interviews were initially made with industry and country experts at a leading European MNC in the CE industry, mainly because this company is a successful operator in both China and Brazil. Later, the results and possible implications of the study were also discussed with these experts. *Inter alia*, the MNC provided us with a list of the top Chinese competitors in its industry, which included: the Xuzhou Construction Machinery Group (XCMG), Sany, Zoomlion, Liugong, Changlin, Lovol and Longgong. Two of the listed companies had entered the Brazilian marketplace and were selected, since we had decided to focus on Brazil as an interesting and relevant example of a BRICS country.

One case is Sany Heavy Industries (HI) (Sany), which produces a full range of construction-related equipment, mostly in China, but also abroad. It belongs to the Sany Group, an international conglomerate employing more than 60 000 people in over 120 countries (http://www.chinadaily.com.cn/bizchina/2011-03/21/content_12214929.htm, accessed 15 March 2011) and enjoying a growth rate of 50 per cent p.a. in recent years (Sany, 2011a). It has five industrial parks in China and four factory/R&D facilities in America, Germany, India and Brazil (Sany, 2011b), and 'plans to build more plants in Indonesia, Russia, North African countries and South Africa' (http://www.chinadaily.com.cn/bizchina/2011-03/21/content_12214929.htm, accessed 15 March 2011).

The other case is XCMG. In 2010, its net profits rose 68 per cent and revenues grew 22 per cent to 25 billion *yuan* (CCMB, 2011c), aiming to achieve revenues of 35 billion *yuan* in 2011, and 100 billion *yuan* by 2015 (http://www.chinadaily.com.cn/business/2011-03/21/content_12214917.htm, accessed 17 March 2011). On average, 15 per cent of the production is exported, with 2.5 per cent going to Brazil, and looked likely to have reached 4 per cent in 2010. XCMG strives to win market share of 8.5 per cent in Brazil, which annually is worth about 13 000 machines in the

construction machinery category (Rotaner, 2011). They hope to achieve this through heavy marketing, quality manufacturing and service (see Halak and Reinke, 2011, for more information on these firms).

Secondary data from various public sources, mostly the internet, is the main data source. Most web sources are in English, but we also used Internet sources in Chinese and Portuguese, which became available through Google Translator. The problems with secondary data are mainly due to the fragmentation of statistics across a large number of sources, making it hard to build a true picture of the firms and strategies studied. There might also be distortions of data through wishful thinking and mis-reporting. The research employs a triangulation method (Merriam, 1998; Yin, 2003, 2009) to maintain reliability and validity, mainly relying on a large number of secondary data sources: books, published articles, peer-reviewed articles, company reports and databases primarily found on websites (see references). These data were used to gain insight into the research problem, triangulate theories and form theoretical frameworks. Investigator triangulation was obtained by having three investigators assigned to the project. Most of the secondary data were collected by two master-degree students under close supervision by one of the authors. To reach a good level of internal validity (Yin, 2009) in our abductive process, theories were continuously assessed against the cases, where patterns were matched and alternative explanations sought. External validity was established through analytical generalisation (Yin, 2009). To control for the variable reliability of data on the web, a multitude of sources were used, where pieces of information from one web source were checked with other sources. However, since this was not always possible, some data might be biased, especially when coming from company web pages. To safeguard the reliability and validity of the study, experts of the European MNC scrutinised the results.

Theoretical Framework

The theoretical framework developed to analyse the internationalisation strategy of the Chinese MNCs is now described. To explain the formation of competitive advantages in emerging markets, a process view of international strategy is taken. To achieve this, strategy theory, mainly the resource-based view, is combined with internationalisation process theory. The drivers of internationalisation strategy from the market are analysed using the 'Five forces model' (Porter, 1980). The impact of the macro environment is viewed through the lens of institutional theory, mainly North (2005) and Jansson (2007a), where this environment is seen to consist of formal and informal rules. Since the focus is on the early phases of internationalisation strategy, we concentrate on the take-off strategy from the Chinese home market and entry strategy into the Brazilian market. The take-off strategy is founded in the take-off process to internationalisation (Jansson and Söderman, 2012) and concerns

how competitiveness in foreign markets is founded in the domestic market in competition with foreign companies. The domestic firm builds a specific ability to compete abroad, and then develops sources of competitive advantage in the domestic market. The specific abilities and competitive advantages are then adapted for use in foreign markets, and entry strategy focuses on how to establish competitive advantage in the new market.

The inside-out perspective to international strategy

According to the inside-out perspective on international strategy developed in Jansson (2007a), the main factor behind a strategy resulting in competitive advantage is a firm's capabilities in the form of managerial and organisational processes, which are shaped by resources and constrained by the external environment. A firm can generate competitive advantage by employing its organisational capabilities to leverage its economic resources, which results in an increase in its economic value to customers and higher profits than its competitors. However, international strategy is also based on the legitimacy logic of rationality coming from the social environment, usually expressed as corporate social responsibility (CSR). Certain other resources and capabilities are therefore legitimacy-oriented. MNCs utilise their capabilities not only to increase economic value, but also to establish higher social and natural values with stakeholders. Since few resources are productive in their own right, resources are bundled together to create organisational capabilities, working together in organisational processes to create customer value and competitive advantage. To achieve the latter, they need to be organised in specific ways, that is, organisation structure is an organisational capability.

In addition to this internal environment, strategy is constrained by the industry (Porter, 1980) and the macro environment, which is defined as institutional and context-based on the institutional network approach (Jansson, 2007a). There is interplay between strategy in an industry and institutions constituting the strategic framework, for example, 'macro rules', such as the judicial system. International strategy is then influenced by the institutional distance between country markets, based on differences in 'informal' and 'formal' rules between the macro institutions. According to North (1990), formal rules include political and judicial rules, economic rules (for example, property rights), and contracts. Informal rules are part of what we usually call culture, mainly codes of conducts, norms of behaviour and conventions.

Theory on the internationalisation process

The basic patterns characterising the initial part of internationalisation processes are related to the internationalisation process as a whole, represented by the Uppsala

model (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977). However, the most relevant literature for studying the internationalisation of firms both to and from emerging-country markets is represented by the network approach (Jansson, 2007b; Jansson and Sandberg, 2008; Hilmersson and Jansson, 2012), which in turn builds on a more general network approach to internationalisation processes, viz. Agndal and Chetty (2007), Chetty and Blankenburg-Holm (2000), and Johanson and Vahlne (2003, 2009). Internationalisation takes place through firms establishing relationships with parties in foreign markets, which is typical of the strong relationship orientation of Chinese firms, usually expressed as *guanxi* (Redding, 1990; Jansson *et al*, 2007). A gradual build-up of internationalisation knowledge takes place, *inter alia* through increased experiential knowledge (Eriksson *et al*, 1997; Sharma and Blomstermo, 2003; Katsikeas *et al*, 2009).

Take-off strategy

In accordance with Boisot and Meyer (2008), we consider that the internationalisation strategy of Chinese firms cannot be fully studied without considering how competitiveness is built in the domestic market. The transformation of the firm between domestic and foreign markets is defined as a take-off process consisting of various stages (Jansson and Söderman, 2012). First, the firm has predominantly a domestic market focus, and no international business. This stage is important because it sets the primary conditions for internationalisation. This is highly relevant for firms from emerging markets, since their sources of competitive advantage are developed at different paces depending on how fast domestic industry and regional markets evolve, that is, the *marketisation* process. Eventually, an awareness of foreign business opportunities emerges, sparked for instance by threats from imports, customers and competitors internationalising, or government initiatives, leading to the start of exporting. Factors behind the initiation of the internationalisation process are usually defined as external and internal stimuli (Tan *et al*, 2007) or external and internal barriers (Leonidou, 2004). Zhou (2007) and Leonidou (2004) consolidate previous work into a limited number of obstacles: three major internal barriers relating to the resources, capabilities and approach to export business, plus four external barriers relating to the home and host environments. Taking a strategic perspective, we define such factors as internal and external drivers. The external drivers are further divided into push and pull factors. These factors are derived from the Chinese and Brazilian CE industry markets by using the 'Five forces model' (Porter, 1980).

As found by Jansson and Söderman (2012), sources of competitive advantage for international markets of Chinese firms initially took place in the domestic market, inextricably linked to local market development. A major condition for take-off is that a firm first develops competitive advantages in the domestic market. Moreover, the development of competitive advantages and the start of internationalisation were

conditioned by the phase of development of the domestic market. Firms move through an expansionary phase of the market, where an initial stage, with an oligopolistic character consisting of a limited number of mostly state-owned enterprises, is replaced by a considerably larger number of mostly privately owned large and small companies, creating and intensifying competition. In the second and third phases, the market consolidates, resulting in a shake-up of firms. The 'wild' and fragmented market of the second stage tends towards a more adolescent and 'tamed' 'Western' type of market, consisting of fewer competitors of both national and foreign origin. Rivalry changes from domestic to global and from supply-driven to demand-driven. Market-driven competitive advantages start to develop in the second phase, where intense price competition leads to firms developing strong cost advantages. Differentiation advantages mainly develop in the third stage, when competition on quality becomes more important and firms invest in more advanced technologies, R&D and brand-building.

Entry strategy

The main purpose of international business strategy is to gain sustainable competitive advantage or staying power in the foreign market. A 'beachhead' or strategic platform is first established, from which competitive advantage is built. Four major criteria are used to evaluate competitive advantages: value, rarity, inimitability and suitability (Jansson, 2007a). Resources and capabilities create value when they are related to customers and other stakeholders as well as to the markets and market environments of these parties. Value creation is not enough. Resources and capability also need to be rare to be a source of competitive advantage. If a capability is both valuable and rare it may help the firm to achieve temporary advantages over its competitors. Whether these advantages are sustainable or not depends on whether they can be imitated or sustained. Resource rarity may vary between countries, making it possible to achieve competitive parity in one national market and sustainable competitive advantage in another. Inimitability of resources and capabilities is therefore critical for the sustainability of competitive advantages. If a resource is to be a source of sustained competitive advantage, competitors should face a cost disadvantage when they try to imitate it (Barney, 1991, 1994). To gain competitive advantages, resources and capabilities also need to be suitable or appropriate for the specific environment. It is not enough simply to locate knowledge and skills in a foreign market; if they are to be valuable and rare, local knowledge and skills together with supporting resources and capabilities located outside the country need to be suitable for the needs of the market and society within which these needs are found (Jansson, 2007a).

The evolution of competitiveness in an internationalising firm passes through three major stages, where each stage is represented by one type of competitiveness: competitive parity, temporary competitive advantage and sustainable competitive

advantage (Barney, 1994). The first stage is formation, where the purpose of the organisation is to develop competitive *parity*. These capabilities are classified as consisting of component knowledge, mainly of a straightforward technical kind, being simple, tangibly explicit and transferable, for example, including blueprints, product patents and step-by-step instructions for an operation (Tallman *et al*, 2004). It is normally tied to the technology of the industry, is relatively coherent and definable, and is usually contextual, transferable, and subject to discovery rather than creation by organisations. The development stage comes next, which ends with the internationalising firm achieving *temporary* competitive advantage(s) through developing more advanced component knowledge. This is a more advanced, less transparent and systemic experiential knowledge that is established through learning-by-doing, for example, a market development routine. Systemic component knowledge is partly transferable. Finally, there is the long-term stage, when the organisation manages to achieve a *sustainable* competitive advantage. This comes about when a capability has been developed that is inimitable and efficiently organised. This requires the establishment of architectural knowledge, which is developed by firms by creating understandings through application. It is non-tradable, complex, intangible, tacit, organisation-specific, causally ambiguous, private, holistic and evolutionary (Tallman *et al*, 2004).

Results

In accordance with the abductive approach, the results of the data analysis are now presented for each major suitable theory. This means that both the theoretical and empirical results are included in this section and are integrated with one another. Initially, the empirical findings regarding the internal conditions behind the take-off and entry strategies are described. The resources and capabilities of the firms are specified, first for firms in general and then for firms in Brazil. This is followed by a description of the external conditions or environmental factors influencing these strategies, first by addressing the market structure and then the macro environment.

General resources and capabilities of the two firms

In Tables 1 and 2, we describe the types of 'resources and capabilities' identified during our comprehensive data search on the web. These types, for example, dealer network and brand, are listed in the left-hand columns. Since this study is about entry strategy, the resources and capabilities established in Brazil are specified in more detail than the general ones.

Table 1: General resources and capabilities of the two firms (China and worldwide)

	<i>Sany HI resources and capabilities</i>	<i>XCMG resources and capabilities</i>
Dealer network	CE portion of Sany comprises 24 sales companies worldwide (CCMB, 2011a).	147 distributors in China, 100 overseas dealers.
Brand	Brand is well-known domestically and becoming increasingly so abroad. With a mix of good quality, low-cost and after-sales service, Sany is becoming synonymous with good customer value (Sany, 2011b). Top-selling excavator in China (12 000 units in 2010). In 2009 outperformed Caterpillar in market share, and viewed as major competitor by Komatsu, the world's no.1 brand of excavators (Sany, 2011a). Among world's top 50 CE manufacturers. Their goal is to become a world-famous brand and be listed among the world's top 500 enterprises.	Strong in brand equity. Highly regarded in China, ranked 1st and in top 10 of world's CE manufacturers. In recent years, shifted from relying on scale and speed to brand, quality, high-end and lean management and benefit increase (XCMG, 2010a).
Plant and equipment	As construction equipment is sophisticated and highly complex, the machinery that produces them has to be equally so.	Uses top-of-the-line production technologies; owns largest in-house manufacturing and assembly facility in the nation (CCMB, 2011b).
Financing	In December 2010 the Sany Group established Sany Auto Finance Co Ltd, created to provide financial services for the CE industry, providing leasing, loans, insurance, trust and financial-services solutions to domestic customers (see employee training below).	No financing service found.
R&D	Sany Group every year invests 5–7 per cent of sales in R&D for new technologies (CCMB, 2010a). Holds 536 registered patents; has generated over 70 key technologies, for example, recently SY75C3EH motor-driven small hydraulic excavator (CCMB, 2010a). One of a few firms possessing the ability to develop such technologies.	XCMG has won several awards at national level for innovative designs and quality (XCMG, 2010b), with 70 per cent of their products achieving the top technical level domestically and 20 per cent internationally (XCMG, 2010b). They will invest \$150 million to build a domestic R&D centre within 5 years, consisting of 13 research and testing facilities – one of China's largest and most technologically advanced units.

After-sales service	Attempts to provide above-average service to all customers. New service regulations are structured on an international level. Sets of standards are defined, composed of letters and numbers. The first, S250, represents Sany's pledge to be a market leader in attendance, replacement parts and maintenance techniques, and to develop effective communication with their customers. S123 illustrates Sany's promise to act on solving all problems within one day.	XCMG places great importance on supporting businesses after sale, providing technical assistance, robust spare parts supply and trained mechanics to service customers (XCMG, 2010c). They have their own sales network around the world and can supply consulting and after-sales services to local customers (XCMG, 2010b). CE equipment is economical in terms of maintenance and operation, while comprising a moderately high level of durability and technical capacity (XCMG, 2011a). As machines are mechanical and not electronic, maintenance is simple; mechanic hire is unnecessary for repair, hence cheaper after expiration of warranty.
Manufacturing know-how	Through manufacturing knowledge and expertise, Sany focuses on developing and manufacturing quality industry-leading products, while remaining competitively priced (Sany, 2011a).	Has invested large amounts of capital in state-of-the-art 'intelligentised' machining equipment and knowledge, while adopting the automotive manufacturing procedures used in the production of entire loaders (XCMG, 2010d).
Employee training	Managers are trained to meet business objectives. Sany Finance will become an important base to train talents in the fields of finance and law (Sany, 2011d).	XCMG holds training seminars for employees. Annual meeting to discuss future development and train subsidiary managers, industry delegates and overseas businessmen (XCMG, 2010e).
CSR	Sany is also interested in financial human side of business (Sany, 2011a). They utilise a recycling programme and have above-average emission standards, regardless of national standards. After Japan's recent tsunami Sany donated equipment and support for repair of nuclear plants.	No information found.
Sales and marketing	The business philosophy is centred on the concept 'helping customers to succeed' (Sany, 2011c).	XCMG will hold about 50 promotional activities worldwide during 2011 (CCMB, 2011b).

Abbreviations: CE, construction equipment; HI, Heavy Industries; XCMG, Xuzhou Construction Machinery Group.

Table 2: Resources and capabilities of Sany and XCMG in Brazil^a

<i>Sany resources (R) and capabilities (C)</i>	<i>Specification</i>	<i>XCMG resources (R) and capabilities (C)</i>	<i>Specification</i>
R1 Distribution	Sany is a new entrant in the Brazilian market. Currently it has 11 distributors in Brazil, generating revenues of \$30 million in 2010 (CCMB, 2010b).	R1 Distribution	Began exporting CE to Brazil in 2007. Now it has 16 distributors plus two distribution centres in Recife and Sao Paulo, and a third being built in Rio de Janeiro. Sold 240 units in 2010 (MOFCOM, 2009).
R2 Brand	Although Sany's brand is recognised in many countries worldwide, their presence in Brazil is still relatively new.	R2 Brand	The firm has developed an above-average reputation for good customer value, thereby developing the brand (XCMG, 2010b).
R3 Plant and equipment	In 2011 they invested \$200 million in a state-of-the-art factory and R&D facility. Besides this hub, Sany operates three factories in CE (CCMB, 2010b).	R3 Plant and equipment	XCMG spent \$22 and \$40 million to set up three assembly plants with their distributors, but have yet to establish a manufacturing facility within the country. Soon up-to-date plant and equipment technology will be transferred to Brazil (XCMG, 2011b).
R4 Location	Sany upholds the industry average for location with their three factories in Brazil.	R4 Location	They hold an average number of assets in Brazil, which are expected to increase over time as needed.
R5 Financing	Plans financial leasing in Brazil in 2012.		No information.
C1 R&D	In 2011 opened a new R&D facility (see R3 above).	C1 R&D	Although XCMG has no local R&D hub in Brazil, they rely on their award-winning technology based in China.

C2 After-sales service	Sany has only recently begun to implement customer service after-sales initiatives, like many of their Chinese counterparts.	C2 After-sales service	XCMG has begun to develop a customer-focused after-sales services network throughout Brazil. They currently have two distribution centres, with a third under construction as of 2011.
C3 Employee training	Sany utilises many avenues to adequately train and retain employees.	C3 Employee training	The firm uses many different ways to train their employees adequately.
C4 Manufacturing know-how	The company makes many claims to high quality; however, this quality is relative to price and has more to do with perceived customer value than actual quality.	C4 Manufacturing know-how	XCMG has much improved in this area over the years and produces moderately high-quality products; however, they cannot compete with many of the high-end market leaders.
C5 Corporate social responsibility	Sany upholds the average CSR levels in the Brazilian construction equipment industry.	C5 Sales and marketing	Strong in sales and marketing, holding a number of promotional events that strengthen both their brand equity and customers' perceived value.

^aMainly based on Halak and Reinke (2011:71–72).

Abbreviations: C, capabilities; CE, construction equipment; R, resources; XCMG, Xuzhou Construction Machinery Group.

Market structure and development

The take-off strategy is based on the degree of competitiveness in the home market. The current market structure of the CE industry in China is therefore described in Table 3, employing Porter's 'Five forces model', that is, the bargaining power of both buyers and sellers, the threat of substitutes, entry and degree of rivalry. The degree of each force was estimated as high, moderate or low.

Table 3: The 'five forces' of the CE industry in China

<i>Five forces</i>	<i>Content</i>
<i>Bargaining power of buyers: Moderate</i>	Buyers are mining, agribusiness and construction companies. Global prices are much higher, while the prices of foreign manufacturers are between 50 and 150 per cent higher than local companies. Owing to such differences, most buyers prefer cheap, local, home-made products with slightly lower quality (Reuters, 2011). Some buyers are demanding machine quality and sophistication on a par with more developed global markets. Increasing importance of brands. Recent economic difficulties have prompted small and medium-sized firms to shop around before making a purchase (Datamonitor, 2011).
<i>Bargaining power of suppliers: Moderate</i>	Low switching costs for raw materials such as steel and aluminium except where long-term contracts and obligations exist. Substantial price variations for raw materials. High switching costs for value-added goods such as engineered components, often being produced in joint development.
<i>Threat of substitutes: Low</i>	Owing to the extremely specialised purpose of the machinery produced (Datamonitor, 2011).
<i>Threat of entry: Moderate</i>	Barriers: high fixed costs, economies of scale, brand loyalty, intellectual property, and stringent government regulations on manufacturing (Datamonitor, 2011). Large firms hold considerable intellectual property assets (patents, licenses, trademarks), and strong brands recognised worldwide. Potential exists for small-scale entry by short-line and speciality manufacturers, especially at regional/local level.
<i>Degree of rivalry: High to moderate</i>	Fierce, often vicious competition results in pressure on prices, margins and profitability. In 2006, the top five producers supplied more than 30 per cent of the market (Reuters, 2011). Hundreds of firms: dominated by a few MNCs and large domestic corporations that control a sizeable portion of the market (Reuters, 2011), plus many SMEs competing in low value-added products. Over-capacity and low profitability in a booming market. High exit barriers.

Abbreviations: CE, construction equipment; MNC, multi-national corporation.

This market structure has developed rapidly over a relatively short time, where many local firms have developed a strong manufacturing capacity, but their capital, management and technological capacities lag behind international firms (Reuters, 2011). However, there are a small number of large domestic manufacturers that can compete with many foreign CE firms.

Some major contradictions exist in this very dynamic market, contributing further to turbulence. A booming market co-exists with overcapacity and low profitability. When output value is growing rapidly, fierce industry competition leads to lower profit growth than revenue growth. If demand growth slows, many firms may fall into a passive situation whereby they have to rely on price competition to survive. However, many do not have the ability or skills to cut costs, nor sufficient bankroll and vitality for long-term development if an industry shake-out occurs (Reuters, 2011). Consolidation can be expected as intensifying competition and rising technological requirements force small and inefficient operations to exit the industry (<http://www.cceddie.net/News/view.asp?findid=7741>, accessed 2 April 2011). Contrary to this, if the Chinese market continues to surpass growth expectations it is also conceivable that many construction firms will continue to be attracted by its potential.

Foreign MNCs are still in a good position to dominate the industry, especially as most entered by means of mergers and acquisitions. They are able to familiarise themselves with local market development, acquire control on brands and often significantly improve profitability at a low cost (Reuters, 2011). Although a large number of domestic firms lag behind many multinationals, Chinese CE firms are learning fast, with a few, like Sany and XCMG, becoming competitive internationally. Even if the market is in growth and remains profitable for most firms, unstable market conditions may work as a driver for domestic firms to look at other markets around the world, especially since global prices are anywhere between 50 and 150 per cent higher than in China. Emerging markets similar to China might be interesting, since the majority of the buyers there, as in China, prefer cheap lower-quality products.

Major institutional differences and similarities

The major differences between the macro institutions of the CE industry in Brazil and China are described below, based on an analysis of the main differences in formal and informal rules between the countries that influence entry strategy.

Formal rules

Regarding international rules, both China and Brazil are WTO members, which means Chinese CE companies can expect similar rules and regulations in Brazil. However, the Brazilian and Chinese legal systems are fundamentally different. China's legal system has evolved from Communist law, while Brazil's is representative of a democracy. In China the law is used as an instrument of government to gain

power, whereas in Brazil the legal system is used as a means for checks and balances, therefore restricting government power. Despite these differences, corruption is rampant in both. Bribery is common practice and results in ineffective law enforcement. The inability to enforce laws in Brazil makes the two legal systems similar in that laws can be overlooked if a company is willing to pay for preferential treatment. However, the future of bribery in Brazil is uncertain, as interest groups are creating anti-corruption initiatives that are starting to gain clout.

Huge stimulus packages for road, rail, power and airport infrastructure, especially in China, have generated demand for CE and created opportunities for CE companies. The education systems of China and Brazil are also similar in that both are predominantly examination-based and foster an environment that encourages cheating, where ultimately the grade a student receives is more important than the methods used to obtain it. Chinese CE companies will have the same challenges in Brazil as in China regarding the legitimacy of credentials held by the individuals they hire.

Informal rules

Culturally, China has low levels of individualistic ideology, maintaining a collective mental stance resulting mainly from Confucianism and upheld by the Communist regime. Historically the Chinese are committed to groups: family, extended family and extended relationships. In collectivist cultures, loyalty is dominant. This is reflected in China's ability to foster strong relationships where everyone assumes responsibility for members of their group (Hofstede, 2009a). Brazil's society also shares a collectivist mentality within a culture that honours private relationships over societal rules. Commitment to relationships within groups such as family, extended family and extended relationships is thus of paramount importance in such collectivist societies. Trust is built via relationships, and society as a whole protects and aids group members (Hofstede, 2009b).

In China, high levels of inequality in power and wealth are socially accepted, mainly based on Confucian ideas, and its power distance is high relative to world averages (Hofstede, 2009b). Strict laws, rules, policies and regulations imposed by the government reflect the need for stability in Brazil to avoid the unexpected, while their risk aversion translates into an inability to have wide acceptance of change. Thus, both countries have a collectivist mentality and believe relationships are of primary importance, even sometimes superseding the law. Corruption can arise as a result.

Analysis of Take-off and Entry Strategies

Take-off strategy: China

Both firms are classified as internationalising firms, meaning that they are found somewhere between the domestic and the internationalised firm (Jansson, 2007b).

They are neither internationally inexperienced nor fully developed MNCs. Most of their sales, as well as most of their resources and capabilities, are in the domestic market. Sany has a higher degree of internationalisation than XCMG, chiefly by having more resources and capabilities located abroad through FDI. It has come farther on the path to an internationalised firm than XCMG, which is more of a China-based export company. They are both active in mature and emerging markets, with a stronger focus on the latter for XCMG. The internationalisation process in Brazil is a critical step for both firms towards full internationalisation. Competitiveness has been built in the domestic market, which fits with the theory on take-off strategy.

Both companies have invested greatly in various marketing capabilities, for example, over recent years they have begun to commit greater resources to customer services in both China and abroad, implying a parallel development of competitive forces. They have after-sales services with many offerings, from spare-part guarantees to training services. XCMG utilises promotional activities such as customer days, expositions and other marketing initiatives, both in China and worldwide. They create brand awareness by exposing their products and having a well-developed sales and marketing strategy. The ability to market their brand is a take-off driver that creates opportunities for success in other markets, as they possess marketing and selling know-how founded on domestic competitiveness. In 2010 Sany became one of the first Chinese CE firms to offer financial services to customers; it only enjoys this first-mover advantage among Chinese competitors, but it may help the company to become more competitive in foreign markets, in particular emerging markets that may lack financial capital, especially for sizeable CE projects.

The companies have invested heavily on plant and equipment in their home country, compared with overseas facilities. XCMG owns the largest in-house manufacturing and assembly facility in China, while Sany is rapidly building factories abroad. They are well known in China for their R&D innovations. Each company takes a different approach to R&D. Sany has multiple facilities around the world and is committed to innovation. Their numerous patents may be attributed to their globally diverse R&D facilities, and their commitment to hiring highly skilled engineers. XCMG, conversely, houses all their R&D in China. Despite big differences in the configuration of resources and capabilities for innovation, they are both committed to bringing innovative products to market. They are cognizant of the importance of learning and knowledge transfer, with programmes in place for employees to continually gain knowledge through internal peer education, for example, corporate training for managers and skill training for labourers. As a result, their employees' knowledge base continues to grow, enabling the companies to provide forward-reaching innovations and consistent customer service.

Sany and XCMG have established the resources and capabilities in their respective home markets to produce a full range of CE. Although their machines do not contain hi-tech electronic components, the know-how is there to produce good quality,

especially when evaluated on a price basis. Moreover, the commitment to customer service increases their competitiveness in the industry and against their well-established rivals, who charge a premium for the quality of their products and services. This results in a moderate to high level of perceived customer value, and seems to result in sustainable competitive advantages in the low-price segment. An indication of this is their high growth, which has made their size and breadth in China extensive and is beginning to do so globally. For example, Sany had China's highest sales volume of excavators in 2010, while XCMG is ranked number one in China and in the top 10 worldwide. With the companies enjoying high rankings and ever-growing sales, their scope is continually growing. Despite the current economic climate, both companies show continuous growth in sales units and profits with an increasing ambition also to reach Europe. In 2009, Sany invested 100 million euros in Bedburg, Germany, to build an industrial park (Sany, 2011a). 'XCMG Europa' (XCMG, 2010a) was also founded in Poland to cover the European market. Since this market is still new, the distribution network continues to develop and expand.

Entry strategy: Brazil

When entering Brazil, both companies established distribution centres to provide sales, service and spare parts to customers. The companies are gradually building up distribution networks, having begun with modest distribution numbers, but with the intention to invest in more in coming years. Geographically, both companies have chosen similar locations for distribution, including the states of Sao Paulo, Minas Gerais, Rio de Janeiro, Espirito Santo and the southern regions. Thus, both MNCs have created a strategic platform or 'beachhead' to provide value to their customers. This seems to have resulted in *comparative parity* within a rather short time. A major reason is that their commitment to service at home has been successfully executed in Brazil, as parts are readily available and both companies have maintained their service promises, for example, XCMG and Sany both launched customer-service initiatives in Brazil immediately upon entry into the market and continue to maintain and improve their level of service. XCMG uses the same marketing and selling techniques as in China; in fact, they hosted the industry's biggest new product exposition of its kind, which may help the company to achieve *temporary* competitive advantage.

With customer service a predominant part of each company's entry strategy, adequate employee training became important, and was provided to local employees when they entered the market, for example, with managers attending training in China to absorb company culture and gain an understanding of business objectives. The firms do not currently offer financial services in Brazil, although Sany was intending to offer financial leasing in 2012, while XCMG has no such plans. The quality of products produced in China has been maintained in Brazil. Proper training

and transfer of manufacturing know-how has allowed the companies to continue their quality standards, indicating a possible future *sustainable* competitive advantage.

In terms of manufacturing, there are major differences between the two companies. Currently Sany has three manufacturing plants in Brazil, with limited product offerings produced locally, whereas XCMG has opened three assembly plants and two parts facilities with their distributors. Although there is currently no commitment date by XCMG, it has been planning a similar facility in Brazil to its one in China. However, both firms continue to import the majority of their manufactured goods from China. As in China, their research and development plans differ in Brazil. Like their manufacturing, XCMG plans to keep their research and development efforts domestic, while Sany has invested \$200 million in a new facility to include R&D.

Sany entered Brazil with the same CSR standards as it has in China, indicating another base for *temporary* competitive advantage. Sany maintains standards higher than Brazil's emission and environmental policies, that is, Sany does not turn Brazil's lower standards into higher profit margins. Hence, the companies have committed resources to selling quality products (relative to their price) with a high level of customer service, in order to generate a perception of value. This entry strategy has proved successful, with a dramatic sales increase.

Effect on entry strategy from the institutional context

Both firms entered Brazil without adapting their resources and capabilities in any major way to the Brazilian market. With both countries investing heavily in infrastructure, the economic conditions in the construction industry are comparable. Regarding the institutional context of the industry market, there are more cultural similarities between China and Brazil than differences. Therefore, CE companies seem to have an easier transition into Brazil than if they were to go into a country with a more individualistic social culture. Regarding emissions, the firms do not need to adapt, since their standards are higher than the local ones. China's commitment to enforce Stage 3A/Tier 3 emission standards by 2014 and Brazil's intention to accomplish the same by 2015 means the current disparity is coming to an end. Still, Sany is in better position to gain sustainable competitive advantages than XCMG through the transfer of their CSR capability to Brazil. Regarding local-content rules, Sany is also in a better position because they are adapting by establishing their own factories, while XCMG has only established screwdriver plants, where there is no need to develop local supply sources. It is notable that despite the high tariffs and other barriers when exporting goods to Brazil, Sany opened manufacturing plants later after having started with distribution, while XCMG has no plans to start full production in Brazil. One reason is that entrants need large financial resources for such investment. It appears that when choosing an entry strategy on manufacturing, each company evaluated the viability of opening manufacturing facilities

internationally based on their domestic resources and capabilities. If the company possesses a core competency in manufacturing at home, then they are more likely to keep manufacturing in-house, as opposed to attempting to transfer this capability to another facility.

Business morale does not differ much between the countries, since bribery is rampant in both, so the firms did not need to adapt. However, the continuity of bribery in Brazil is uncertain, due to the anti-corruption initiatives mentioned above; the Chinese firms may have to change their strategies if they currently employ bribery. For the future, with legislation on intellectual property rights underway, they must also be cautious in Brazil to avoid legal proceedings, as infringements are taken more seriously than in China.

Conclusions

The home market in fast-growing large emerging markets plays a key role in developing competitiveness for foreign markets. Before embarking on internationalisation, a company builds the necessary resources and capabilities in its home market through competing with foreign rivals and major local competitors. Such ability to take off seems to be achieved in the later stages of marketisation, when the market moves from its 'wild' second stage to its 'tame' third stage.

Sany and XCMG have established similar resources and capabilities configuration in Brazil as in China, that is, their assets were found to be suitable to the foreign market and in no need of adaptation. This also implies that the firms mainly copied their home-market strategy to this foreign market, relying on the resources and capabilities well developed at home and adhering to their core business practices, with few to no changes upon entry. They applied their assets similarly to their China practice upon entry to Brazil, for example, XCMG houses its R&D facilities in China, while Sany diversified their facilities by international locations.

Both firms are found in the development stage as regards competitiveness. They have mainly transferred component knowledge and have reached competitive *parity*. They are now developing systemic component knowledge to achieve *temporary* competitive advantages, which they seem to have done in the low-price segment. Sany seems to have come farther than XCMG in the process of creating *sustainable* competitive advantages. Their recently established R&D constitutes a dynamic capability needed to develop architectural knowledge and adapt to market changes, also providing the potential to increase competitiveness to an advanced level to compete in the high-price segment in the future.

Another major conclusion is that the institutional context of China's CE industry has many similarities with Brazil, both economically and socially, which might also be valid for other emerging markets, especially BRICS countries. CE firms in China face heavy competition, while maintaining steady industry growth. One of the main

reasons for this surge in growth is the influx of government resources allocated to infrastructure from the stimulus package. With other emerging-country markets sharing similar industry trends, it is conceivable that Chinese construction firms will thrive in these markets too. Many emerging economies appear to be attractive to the Chinese because few adjustments seem required.

Chinese CE firms are emerging from a past of inferior product offerings and cost savings in which quality and customer service were sacrificed for the bottom line. They have learned how to make equipment efficiently and inexpensively, while producing the more reliable products and services that consumers demand. They are following their major Western competitors by employing many of the same strategies. Firms are beginning to not only offer, but also commit to timely and efficient customer service. Warranties are being offered with several service follow-ups, and commitments have been made to provide spare parts when needed. Customers' perceptions of quality are rising and Chinese equipment is gaining value in the eyes of customers. Firms are also beginning to offer full services for their products, including financing and after-sales. Furthermore, some Chinese CE firms are strategically building R&D facilities.

Sany and XCMG are thriving in the Chinese market despite fierce competition, and have learned how to maximise their resources and capabilities to flourish in the dynamic domestic industry and macro environment. The accumulation of valued and rare resources and capabilities at home in a very turbulent industry environment are the main factors driving Chinese firms to expand overseas. Owing to these particular circumstances, Chinese firms seem to develop dynamic capabilities that are also suitable for other turbulent industry environments. These capabilities might also constitute the basis for future sustainable competitive advantages, perhaps even outperforming current incumbents, especially in big emerging markets.

Reflecting on the theoretical framework developed in this study, it seems an accurate portrayal in describing and explaining take-off strategy of Chinese firms from China and how they gradually build competitiveness in their entry strategy into the Brazilian emerging market. However, the conclusions are tentative, since they are based on only two cases, whereas a more extensive study, involving more firms, would be necessary for more conclusive results. Such results also require secondary data to be complemented with primary data, mainly from interviews. To increase the external validity of the theory for more firms and emerging markets, it needs to be tested on a representative sample of firms.

A major implication of this study for the Euro-Asia relationship discussed at the beginning of this article is that the major European incumbents of the CE industry seem to face threats to their competitive positions in emerging markets, such as Brazil, but not yet in the mature European market, as indicated in the *Wall Street Journal* (<http://blogs.wsj.com/source/2011/04/14/brics-cannot-hurt-eu/>, accessed 21 May 2013). Chinese MNCs do not yet compete directly with major global competitors such as Volvo CE. Thus far, the Chinese have mainly built their

international competitive strength in the low-price segment, while major competitors have relied on their perceived superior technologies, customer service and branding to differentiate themselves from Chinese CE firms, thereby justifying premium prices for their products and services in the high-price segment. Rather, it seems that these major firms respond to the Chinese threat to their global market positions by entering the low-price segment to compete head-on with Chinese firms. European MNCs have implemented this strategy in China by acquiring local competitors in this segment. By taking on the new competitors in their home market, these newcomers will have fewer resources available to go for the high-price segment in foreign markets. This also opens up the possibility of internationalising an acquired firm by establishing it in an emerging market such as Brazil to compete with other Chinese and local CE firms in the low-price segment.

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