

Analysis on Influence and Inspiration of the Localization Strategy of Multinational Corporations in China

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Abstract

Since the beginning of reform and opening up, mass of transnational corporations into China. Faced with their home countries of different political systems, economic systems, and cultural practices, transnational corporations had to integrate with Chinese political, economic and cultural customs, to carry out enterprises system innovation from the actual situation of China, to adapt to the needs of the Chinese market. More and more multinational companies has developed a number of strategic measures and achieved remarkable results under the direction of thought of "think global, act locally". (Li, 2005)At the same time, these strategic measures to China business go out of the country to foreign investment and transnational corporations is of great significance. In this paper, researched the multinationals specific contents of the localization strategy in China, and its positive and negative impacts on China, and proposed strategies of China's enterprises.

Keywords: Multinational corporation, Localization strategy, Effect, Tactic

1. Analysis of Localization Management Strategy of Multinationals in China

1.1 Production Localization Strategy

Production localization of multinational corporations in China has relatively long history. As early as in the early 1980 of the 20th century, the beginning of reform and opening up in China, foreign companies are involved in the production area, actual has started the process of production localization. In recent years, the transnational corporation to accelerate the industrial transfer, significantly speeding up of building manufacturing center in China. Many large multinational companies have invested to establish a dozen or even dozens of manufacturers in China.(Yang,2006)China is the world's largest mobile phone market, at present, the major mobile phone manufacturers are investing heavily into China, Motorola, Nokia, Samsung, Philips, Siemens and other industry giants migrate its phone lines to China. For example, in the pharmaceutical industry, 20 of the world's largest pharmaceutical companies has established wholly-owned or joint venture companies in China.(Song, 2006). Germany chemical giant BASF is the world's largest producer of chemical products, in early 2001, BASF signed a joint venture agreement of vitamin C with Northeast pharmaceutical group, establishing an production bases annual output of 5.-20,000 tons, which have been closed production base of vitamin C in Japan and the United States and Denmark . After China's WTO, more of the world's pharmaceutical giants, such as Glaxo Smith Kline, Roche, Merck, and so is no longer take China just as a sales market , they invested heavily capital in China's market annually for clinical research and continually moves the production base to China

1.2 Personnel Localization Strategy

Many multinational corporations believe that localization team of excellent staff and managers to better understand China consumer demand and it can help businesses to take the first-class science and technology and its successful experience to root in Chinese culture, laying the foundation for its development in China. Transnational corporations generally stressed that local conditions, people-oriented principle, attention to the use of local human resources, reuse of Chinese elites, let Chinese professional managers to control the Chinese market, enabling them to become the most important local forces of implement localization strategy. Localization of the human resource development and utilization, greatly help the multinational corporations to establish good relations with the Chinese government and people, for implementation localization of products and market provided intellectual support. For example.(Wang, 2009) Panasonic sent nearly thousand Chinese employees to Japan training, Siemens not only arrangements Chinese staff training abroad, and specifically invested \$ 5 million establishment of training center in Beijing. Especially from 2004, the multinational corporations implemented senior manager localization in China, Motorola and Nokia's headquarters staff in China are the Chinese people.

1.3 Research and Development of Localization Strategy

As of October 2006, number of foreign Research and Development Center in China has

reached 980. By contrast, 5 years ago, independent and non-independent research institutions total no more than 200 in China. This shows that the focus of multinational companies investing in China, will gradually from traditional manufacturing, extending to the upstream industries such as research and development. Multinational companies to set up research and development centers in China, implementation of research and development localization, adapted to the characteristics of Chinese market of products can be developed, its products closer to the China market; their product development to meet the creative needs of scientists, while meeting the company's commercial interests, this approach to research management for China research and development institutions under the original system of scientific and technological have a strong role model.

1.4 The Localization Strategy of Distribution Channels

After Multinational companies into China, do not set up their own channel, but first of all set up offices in a typical area or city, and to do some preparatory work eventually into these regions and cities. When decide enter to these market, seek local agents as much as possible, to reduce the cost of public relations, coordination costs and avoid failure of hasty investment risk. (Zhou, 2003). With becoming more familiar with China, transnational corporations gradually implementing the strategy of forward integration, for acquisitions or new way, gradually build up itself sales channels. In addition, through investment, strategic cooperation, with China enterprise sales network remains are the choice of multinational companies.

For example Hewlett-Packard Company to establish a secondary distribution channel composed of secondary agents and secondary dealers in China, channel is controlled in two level so that management in areas such as pricing, stock , and avoid vicious competition. Pepsi has set up large wholesale sales staff and direct sales team, for full preemption to the units, such as the department stores, supermarkets, warehouse-type parities shops, streets of retail stores, grocery stores, nightclubs, even schools, and hospital, and for the retail terminal to multi-layer penetration.

1.5 Procurement and Production Localization Strategy

Previous multinational enterprises invested in terms of equipment and raw materials, dominated by imports, only around 30% procurement in domestic. Its mainly due to foreign investors thought that domestic product did not meet its procurement requirements, for example, it is not of high quality and stability, higher prices, and delivery is not timely enough. (Peng, 2004). Now, the situation has changed enormously. Multinational companies have increased the procurement in China, investment and set up factories in China, and establishment of manufacturing center, local procurement of raw materials, local production, local sales. For example, the world's largest coffee and dairy products manufacturer Nestle company, Nestle in order to occupy China market, achieve to sell milk and coffee in China, they go into farmers, from raw material production began of helping China to develop fresh milk and coffee beans, and localized operation. Company first to China for cooperation in April 1979. Formal first cooperation project of negotiations with China in 1982: joint

venture establishment of Shuangcheng milk products factory in Heilongjiang province, after the Shuangcheng plant starts to produce in 1990, milk resources immediately became a prominent issue, low milk production, is not of high quality. (Kang & Zhou, 2005). In order to solve the milk issue, company sent a team of experts, not only established a set of milk collection networks and systems of encouraging farmers enthusiasm, and teach farmers scientific methods of feeding cows and mining milk technology, greatly improving the enthusiasm and skill of the dairy farmers, the raw material base of milk yield and quality has been greatly improved. Similarly, the coffee raw material supply of localization methods are used. Through hard work, at the same time Nestle finally in fostering markets, also established its own position in the Chinese market.

1.6 Localization Strategy of Brand and Marketing

Branding is important identity of an enterprise, occupies an important position in the marketing. Brand is first large magic of multinationals occupation China market, such as two European elevator multinationals in China to themselves of elevator brand will for "fast up" (quickly arrived), and "Kone" (working together), Japan Mitsubishi elevator company and Hitachi elevator company, in its brand publicity also plus the located city name, such as "Shanghai Mitsubishi", and "Guangzhou Hitachi", thus has increased brand of affinity and user of identity sense. (Wang & Hu, 2009) s of image, is important means of marketing ,into China of elevator multinational, according their of features, select different advertising terms has meet China actual, such as Shanghai Mitsubishi elevator of advertising language is "running up and down of enjoy", Guangzhou Hitachi elevator of advertising language is "make progress every day of pursuit", Kone elevator of advertising language is "with you into sustainable development of environment", they have made good of effect.

2. The Positive Impact of the Localization Strategy of Multinationals to China

2.1 Promoting the Upgrading of the Chinese Industrial Structure,, Fostering Industrial Cluster, Accelerates China as "World Factory" Formation

After economic reform for decades years, China economic of development attracted worldwide attention, but due to many non-economic causes of history and the experience, China economic also faced with structural excess problem, China market are facing with industry of large integration, and multinationals strategy of adjustment in China, undoubtedly will speed up this process, promote the upgrade of China industry structure of , and fusion of China and world economic system, accelerated China as "world factory" formation. (Cai, 2005). In particular, such as the Pearl River Delta and Yangtze River Delta region in the South of China, as multinational investment scale increases and supporting rate of increase will accelerate the development of the local enterprise cluster, promoting the upgrade of this region industrial structure, integration China into the global division of labor system, as the world's factory. (Li, 2004) At present, China Southern area has become a global main production bases of labor-intensive products, consumer electronics products and desktop's computer, China Eastern area is becoming capital-intensive transnational corporations and

global production bases of notebook computers, semiconductors and other electronic products. (Hou & Hu, 2009)

2.2 Promoting Cultural Integration and Management Reform

Transnational corporations in the localization process, continue to melt own excellent cultures and management ideas. Localization does not exclude excellent and exotic culture, as long as there is the effects of transnational corporations operations, these foreign culture and management ways are easy to be accepted by local enterprises, through the cultural infiltration and integration, domestic enterprises can continue to absorb foreign advanced management ideas and culture, in favor of local management thought constantly change.

2.3 Promoting the Enhancement of Chinese Talents Quality

First, promote local human resources growth, multinational employed the local of senior management personnel, conducive to exercise and training local management talent, improve Chinese manager international business ability, thus accelerated China economic and international practice of process; second, most scale larger of multinationals provides human resources training project, human resources development of input beyond many domestic similar enterprise, produced the active effect on improve talent quality; (Xian,2002). Furthermore, will promote China personnel system, and education system reform, gradual improvement of personnel motivation system, speeding up the formation and efficient operation of the labor market.

2.4 Speed up the Spread of Technology in China and Improvement China's Technology Progress

Localization strategy of multinational companies, not only increased foreign-funded enterprises investment in research and development, while promoting domestic companies of investment in research and development, promoting industrial upgrading and technical progress of China. Especially multinational corporations increasing investments in high-tech industries and to establish research and development centers in China engaged in high-tech research, has played a positive role to improve technology and research and development capabilities in China, will enhance China's technology development capabilities, guide domestic research oration, promote domestic supporting enterprises to raise technology levels and to compensate for inadequate funding of research and development of China.(Xu,2003)

3. The Negative Impact of Localization of Multinational Corporations in China

3.1 Exacerbate the Risk of Brain Drain of Chinese Local Enterprise

Multinational companies for talent provided by preferential treatment, made large numbers of talented people to transfer to multinational corporations from the domestic enterprises. In particular the loss of technical and management personnel, huge impact on domestic enterprises. (Zeng, 2006). Multinational companies fierce scramble for talents every winter in Beijing, Shanghai and other places of famous colleges and universities, with generous

treatment, good development opportunities attract graduates. Some multinational companies set up scholarships in college, from the students entered the school to start for the purpose of cultivation, laying the foundation for them into companies. Domestic enterprises, such as only Lenovo, Haier can have a certain competitiveness in such fierce competition for talent. Other domestic companies can't compete with TNCs. So, in the early competitiveness for talent, China's domestic enterprises at a disadvantage, cannot recruit the right talent according to the requirements of enterprise development, multinational enterprises in China's repression, will form a monopoly trends in certain industry.

3.2 Domestic Advantage Resources to be Seized

Because one of the aims of multinational companies to invest in China is to take China's advantage resource, this is no doubt a seizure of resources available for domestic enterprises. In recent years, transnational shipping companies involved in development and operation of China's coastal container terminals. For example, Maersk company (Denmark logistics company) has received 49% shares of Shanghai Waigaoqiao phase IV terminal, and has the operation right, Waigaoqiao terminals became the first terminal operated by a foreign owner. Multinational shipping company has been operating in domestic investment shares of terminals and ports: the Maersk company of Shanghai Waigaoqiao phase IV Wharf (49% shares), Yantian (7% shares), Dalian dayawan (10% shares); P&G company of Tianjin Port, Qingdao port area phase II, phase III (49% shares), Shekou Terminal (25% shares). Maersk Logistics is the largest. At present, it has established 13 branches in China, covering almost all focused goods flow region. Other shipping companies have also seize to formulate the logistics development strategy in China. (Li & Xiong, 2003). These produced adverse effect on Chinese logistics industry : transnational shipping company investment Terminal always by itself interests for site and layout, upset China container terminal general planning and arrangements, brings adverse effect on China port general strategy of implementation , increased malignant competition of container terminal, transnational shipping company investment domestic terminal, will caused difficulties on China shipping enterprise carried out extension and domestic container transport .(Liu, 2005)

3.3 Operating Activities of Transnational Corporations in China, Competing for Market Share with China's Domestic Companies, and to Impact the Interests of Domestic Enterprises

Since the 70 's, the automobile producers such as Japan , the United States, Germany, France, and Italy and so on multinationals monopolies 80% of the auto production in the world, procurement of raw materials and spare parts in the world, organizing product development and production and assembly, established sales and after-sales service network, the globalization production enable them to take full compare production advantage of every countries, optimizing the resources allocation, thereby reducing the production costs of the product and access to the huge profits by technology monopoly and the market monopoly . (Su & Xiao, 2008). At the present, China automobile industry employment of about 2 million, including 45% workers in large enterprises, SMEs accounted for 55%. Total profits, corporate profits accounted for 70%, SMEs accounted for 30%. Most SMEs are car parts production

and cars modified plant, backward technology and equipment. After entering the WTO and Chinese government protection measures declined for automotive industry, under the impact of transnational corporations of the auto industry, many factories will face the risk of failure, because of the inadequate social security system of China, unemployment will be the social unrest.

3.4 Multinational Corporations Investment is Driven by Interest, High-Profit Industries is Their Preferred Investment Target, So Their Investment Industry and Investment Direction Perhaps are not Fully Consistent with the China's Current Economic Development Strategy

For example, in the real estate industry, the National Bureau of statistics data show, 2004 national housing sales price up 9.7% than 2003. According to the, in the first quarter of 2005, and real estate prices rising in 35 cities, the average home sales price up 9.8%. In Shanghai, commercial residential sales price rise at 19.9%, this situation is not entirely of domestic demand, is considerably the international floating capital, approximately 8 billion dollars of overseas hot money into the real estate market in Shanghai in 2004. Overseas hot money accounted 40% of Shanghai commercial housing turnover at the first quarter of 2009. (Li& Lu, 2003)

In the process of Multinational companies operating localization in China, by its capital, technology, size, and management advantages, squeezing the peer companies, formation growth suppression effect on Chinese enterprise. This embodiment of the most concentrated growth suppression effect is the control of multinational corporations on the stake. Before the mid 90, most of the multinational corporations to venture into China. (Jiang, 2002) But with the loosening of China's foreign policy and the experience of multinational corporation in China, select wholly-owned or joint-venture holding investments is growing rapidly. Excessive control of transnational corporations for a number of industries, especially usury, form a industry monopoly trends, once transnational corporations formed a monopoly on these industries, the interests of Chinese enterprises of domestic industry and consumer will be damaged.

4. Tactics of China Domestic Enterprises in the Face of Localization of Multinational Corporations

4.1 Accept the Global Strategy of Transnational Corporations, in Cooperation with Multinational Companies, into the Division System of Transnational Corporations, Enjoying the Benefits of Trade within Their Company

Domestic enterprises in cooperation with foreign enterprises, integration both of resources from customer needs, forming a unified competitive advantages, national enterprises and transnational corporations cooperation better, innovation ability between the two sides is stronger. Therefore, Domestic enterprises must to research the local market products which has demand, high technology content and high added-value, and establishing their own brand. (Yang, 2009) of a large number of complementary businesses, provides a new space, Chinese enterprises should seize this opportunity to participate actively. Entering the global supply

chain of multinational corporations, accelerate technical innovation, make the product and production process to comply with the quality requirements of TNCs, seeking to occupy favorable position on the industry chain.

4.2 Improvement the Enterprises Competitiveness in Cooperation

First, in the cooperation with the transnational corporations, Chinese enterprise should actively learn from Western enterprise's advanced management experience, leading-edge technology and good enterprise culture, establish a modern enterprise system, clear property rights, truly build up management mechanisms of self-regulation and self-development.(Li & Xiong , 2003).Second, seek the juncture between the Western enterprise culture and the local culture, finding strengths of different cultures, and the gap between them, and to get it on the gap, find a way to integrate these gaps. Third, meanwhile, Chinese companies increased its competitiveness, to achieve localization of Chinese enterprises in overseas operations. Take localization strategies to build the enterprise internationalization framework, implement localization strategy in different elements and multiple angles according to their different circumstances, different overseas markets, different consumers, to achieve success of development of Chinese enterprises in overseas markets.

4.3 Became Strategic Partners of Transnational Corporations both Cooperation and Competition, and Competition with Multinational Corporations in Domestic Markets, also Grow into a Multinational Corporation

To dealing with transnational corporations, Chinese enterprises must develop their own enterprises, enterprises not only large, but also to a strong. First, Chinese enterprises should be based on the actual situation, implementing strategic restructuring of industry, making enterprise to transfer to the structural rationalization, management intensive, scale grouping, and development transnational management model of occupying the market at home and abroad. (Peng, 2004). Second, should cultivate the core competitiveness of Chinese enterprises, including strong technology innovation and market competitiveness. Foreign multinational companies because of the host country does not have "ownership-specific advantages", thus use product differentiation strategies. (Xu, 2003). Chinese companies want to "defeat the strong by the weak", should be to pursue "cost advantage" as the basis of enterprise competitive strategy, full play labor and low cost advantages, to develop labor-intensive industries with high technology content and the labor-intensive production processes in high-tech industries, to create own comparative advantages, finding new cooperation mechanisms in the competition, both is in a win-win situation.

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