DOI 10.15302/J-SSCAE-2017.05.006

Research on the "Go Global" Strategy of China's Railway Equipment Enterprises

Sun Xuejun, Tian Gang, Wang Jiao

CRRC Industrial Institute Corporation Limited, Beijing 100070, China

Abstract: This paper summarizes the characteristics of the "Go Global" strategy and analyzes the countermeasures used in the different stages of the "Go Global" process. Based on the current internationalization of China Railway's equipment enterprises, this paper puts forth suggestions for the "Go Global" process.
Keywords: "Go Global" strategy; equipment enterprise; capability

1 Internationalized actuality of China's railway equipment enterprises

Since the launch of the 12th Five-Year Plan, China's railway equipment enterprises (CREEs) have invested more energy in globalization under the guidance of an international operation strategy. To adjust structure, facilitate reform, improve quality, increase profit, and control risk, as directed by the State-owned Assets Supervision and Administration Commission of the State Council, CREEs are working vigorously to more strongly support innovation, optimize trade structure, enhance management modes, upgrade administration performance, further explore international markets, and strengthen international operation capabilities. The current achievements in these aspects are encouraging.

The operation indexes have increased at a stable rate. From 2011 to 2015, the annual value of export contracts of China Railway Rolling Stock Corporation Limited (CRRC) reached USD 1.737 billion, USD 3.616 billion, USD 3.944 billion, USD 6.620 billion, and USD 5.781 billion, and its overseas revenue reached RMB 12.408 billion, RMB 18.178 billion, RMB 13.824 billion, RMB 15.919 billion, and RMB 26.49 billion, respectively, indicating a stable upward trend.

In addition, international operation capabilities strengthened rapidly. The transnational operation indexes of the China South Locomotive & Rolling Stock Corporation Limited (CSR) were 2.95%, 3.76%, 3.14%, and 7.1% in the first four years of the 12th Five-Year Plan, and in 2015, the transnational operation index of CRRC was 6.5%.

Breakthroughs were also gained in market and product exploration during the 12th Five-Year Plan. CREEs demonstrated excellent performance in the exploration of international markets, and by the end of 2015, CRRC had exported products to 101 countries in 11 regions across six continents.

Finally, a wide range of products were exported. During the 12th Five-Year Plan, CREEs exported numerous products, from locomotives, passenger trains, and freight trains to high-speed electric multiple units, ordinary electric multiple units, and urban rail trains. A total of 44 467 complete cars/units were exported, including 654 electric locomotives, 1 142 diesel locomotives, 1 173 electric multiple units, 285 diesel multiple units, 815 passenger cars, 515 light-rail cars, 5 687 subway cars, and 34 196 freight cars.

In addition to the "Go Global" strategy for their products, CREEs are working actively to facilitate a "Go Local" policy for larger production capacity and a "Go Up" policy for greater brand reputation to enhance international operations efficiently. A good outcome of the "Go Global" strategy are the favorable initial effects on the ongoing growth of their international oper-

Received date: November 6, 2017; **Revised date:** November 13, 2017
Corresponding author: Wang Jiao, CRRC Industrial Institute Corporation Limited, Economist. Major research field is business administration. E-mail: wangjiao@crrcgc.cc
Funding program: CAE Advisory Project "Research on China's Railway 'Go Global' Strategy" (2015-ZD-11)
Chinese version: Strategic Study of CAE 2017, 19 (5): 033–037
Cited item: Sun Xuejun et al. Research on the "Go Global" Strategy of China's Railway Equipment Enterprises. *Strategic Study of CAE*, https://doi.org/10.15302/J-SSCAE-2017.05.006

ation and on their marketing and management strengths. CREEs have shifted the spectrum of export products from lower- to medium-end to high-end and expanded their markets from Asia, Africa, and Latin America to Europe and North America. Thanks to the evolution of their concepts on export business from merely “Go Global” to including “Go Local” and “Go Up,” CREEs have broadened their export spectrum from just products to capital, technology, services, management, and some other diversified portfolios.

2 Characteristics of enterprise internationalization

According to traditional enterprise internationalization theories, enterprises develop in an evolutionary manner following their internationalization roadmaps, as they have to fit into the local environment gradually while gaining knowledge and developing strengths. Based on those theories and some successful cases, we have identified the following features of enterprise internationalization.

From the perspective of development strategy, enterprises generally underwent growth stages, from specialized operation, to concentric diversification, and then to hybrid diversification. In the early period, most enterprises concentrated their resources on a single product type or series. Along with their internationalization growth, enterprises gradually added a range of similar products and services, and expanded their capabilities while focusing on core businesses. As they became stronger, enterprises considered entering some less-related industries, with the aim of risk reduction.

From the perspective of development roadmaps and patterns, enterprises generally underwent growth stages, from “Go Global,” to “Go Local” (localization), and then to “Go Up.” The “Go Global” stage signifies that enterprises at this early internationalization stage captured overseas market shares mainly by employing agents, building sales channels, and acquiring foreign brands or channels, or seeking cooperation by establishing joint ventures (JVs) with foreign companies. As they became stronger and more experienced, enterprises entered the “Go Local” stage, that is, localization, when they could, either on their own or by founding JVs or strategic alliances, or entering into M&As, in order to build the industrial chain (covering R&D; design; production of essential raw materials, parts, and whole-set equipment; sales; and services) and integrate it with the value chain for further upgrade. They could have also escalated to industrial chains at a higher level through cooperation in new product development, or created new global chains by developing innovative products independently and nurturing new brands. In the “Go Up” stage, the ultimate level of internationalization, enterprises might have developed global industrial chains and production networks, with globalized R&D, production, marketing, and resource allocation and optimization, which is the supremacy of internationalization.

From the perspective of regions, enterprises generally established a foothold from domestic to international and global markets. This positive and solid three-stage path has been followed by most Chinese companies that succeeded in exploring international markets, that learned at first and then accumulated power within domestic borders before going global and competing in international arenas, and finally growing into mighty giants capable of globalized resource allocation.

3 Analysis of countermeasures applied in “Go Global” strategy

In this paper, enterprises’ “Go Global” process is divided into three stages (“Go Global,” “Go Local,” and “Go Up”) based on the theories of enterprise internationalization [1,2]; in addition, the countermeasures applied by CREEs are analyzed on the basis of the resource-based theory [3] and the necessary elements to develop internationalization competence [4] by referring to the results of studies on the essential competences required in the three stages [5].

3.1 Analysis of countermeasures in “Go Global” stage

In this stage, most enterprises explore overseas markets by foreign trades, including direct and indirect trades [6]. The former denotes that enterprises export products by building overseas sales organizations and channels, while the latter means that they reach the same target by employing intermediate suppliers or agents. The advantages and shortcomings of the two trade modes are analyzed and shown in Table 1.

To survive in this stage, enterprises should develop the competences to (i) evaluate the environment, including the target countries’ market demands, political and economic situations, laws and regulations, and cultures, and then select overseas markets with attributes similar to China’s; (ii) track the markets, including through analyses of market demands, local competitors, and potential partners; and (iii) select suitable trade agents, which is of great importance, and learn how to manage relationships with them.

3.2 Analysis of countermeasures in “Go Local” stage

In this stage, that is, localization, enterprises could, either on their own or by founding JVs or strategic alliances, or entering into M&As [7,8], build the industrial chain (covering R&D, design, manufacture, sales, and services) and integrate it with the value chain. The advantages and shortcomings of these four modes (independent development, JVs, strategic alliances, and M&As) are analyzed and shown in Table 2.

To proceed in this stage, enterprises should develop the competences to (i) complete preliminarily localization tasks, that is, fully understanding the local culture, customs, laws and

Table 1. Comparison of trade modes in "Go Global" stage.

Trade mode	Advantages	Disadvantages
Direct trade	Production–supply–sale chain can be established in a short time to speed up production cycle.	1. More efforts are required to manage dealers in new operation and social environment 2. More procurement processes are added
Indirect trade	1. Low risk, safer, and reliable; 2. Lower requirements for personnel, funds, and other operation costs; 3. Fast, convenient, and highly agile	1. Hard to demonstrate enterprise's strategic intentions for overseas development; 2. Restrictions and impairment from higher tariffs and trade barriers; 3. High cost of time-consuming transportation

Table 2. Comparison of various modes in "Go Global" stage.

Mode	Advantages	Disadvantages
Independent development	1. Highly efficient 2. Incentives for building new enterprises in host country	1. Long development period and more time needed to take effect 2. High cost and risk level
Joint venture	1. Advanced management experience of other parties 2. Funds from other parties could be applied for enterprise development 3. Application of intangible assets (e.g., brand) and marketing channels	1. Less control or authority and more interference from other parties 2. Cultural integration problems 3. More departments/divisions under monitoring
Strategic alliance	1. Lower cost 2. Application of partners' marketing channels 3. Risk avoidance	Inefficient communication and possible low work efficiency
M&A	1. Rapid product manufacturing with support of existing production capabilities, technologies, and brand 2. Rapid product localization using existing marketing channels 3. In case of cross-industry M&A, operation scope and sites could increase in a short period	1. Hard to evaluate the target company's actual conditions, possibly leading to going over-budget 2. More legal and political restrictions in host country 3. Possible boycott of local media 4. Complicated organization integration after M&A

regulations, industrial development conditions, and market demands, in order to fit into the local society; (ii) develop and manage relationships with the local government and enterprises, and preliminarily establish a local value chain system by localizing R&D, procurement, and production; (iii) pool abundant human resources and build an international team capable of cross-cultural communication and responding properly to various situations; (iv) control risks, including management of overseas projects and control of investment risks; and (v) conduct M&As and integration, which requires more efforts on management integration, especially in terms of culture after an M&A.

3.3 Analysis of countermeasures in "Go Up" stage

In this stage, enterprises (i) should have developed mature localization competence and managed to fit into the local society as local companies by forming stable ties with local governments, companies, and clients; maintaining friendly relationships with local residents; and establishing a competitive system of value chains, which is integrated with the local industrial chains, covering R&D, manufacturing, marketing, services, procurement, and supply. In addition, they (ii) should have developed the competence to allocate resources on a global scale. As their products and services are provided across the globe, enterprises should have a complete global system covering R&D, manufacturing, marketing, services, procurement, and supply chains to support worldwide allocation of capital, talent, technology, markets, and other resources; in addition, they should be capable of integrating all their industrial value chains across the globe and of developing a management mode suitable for their respective overseas strategy, in order to respond efficiently to the changing market demands and even nurture and guide the market. Finally, enterprises (iii) should have gained sophisticated risk control competence to develop a solid and all-encompassing pre-event, in-process, and post-event risk management system.

Deep down, an enterprise's strengths underlie its performance in the internationalization process. These strengths include, in addition to the supporting platform, an enterprise's competences to learn and grow, coordinate, innovate independently, withstand risks, and manage its organization. ① The competence to learn and grow involves the timely regulation of the development strategy according to the changing environment, development conditions, and the development level of the enterprise, and to coordinated innovation in multiple aspects, including R&D, manufacturing, marketing, services, control modes, administration, and systems. ② The competence to coordinate simply means that all of an enterprise's business elements, including R&D, manufacturing, marketing, and services, can be coordinated closely and efficiently with the support of an advanced management system and technologies, so as to generate a strongly competitive value system for the enterprise. ③ The competence for independent innovation derives from a sound and efficient innovation system that consists of both “hard” and “soft” aspects; hard aspects include all physical institutions transforming innovative ideas to reality, such as research centers, manufacturing workshops, and service companies, while soft aspects refer to the management competence that ensures a high efficiency of such transformation. ④ The competence to withstand risks requires the enterprise to defend itself against risks by maintaining its strongly competitive core businesses while balancing the growth of its secondary businesses. Meanwhile, it should drive the growth of its secondary businesses (those with potential and those listed in the development plan) with the core businesses to form a multi-layered business structure. ⑤ The management competence involves the establishment of a rational and effective decision-making, implementation, and supervision system, through which the headquarters can coordinate and allocate resources in a comprehensive and optimized manner, in order to maximize the value of the organization as a whole and push forward the ongoing development of a management system based on regulations, standards, procedures, and information technology. ⑥ Finally, the supporting platform includes the enterprise’s soft power. The enterprise should align its culture and talent development strategies, implement its brand strategy successfully, and make its indigenous brands a part of the core of its soft power and intangible assets. In addition, it should facilitate a deep integration of information and industry, tailoring its information system to suit its business structure and industrial characteristics; combine the production and financing sectors effectively to support enterprise development according to capital operation and other financial means; and integrate resources efficiently by M&A and restructuring, to optimize resource allocation.

4 Advice on “Go Global” development of China’s railway equipment enterprises

Although CREEs have made some progress in internationalization, their capabilities for environment assessment, localization, M&As, human capital building, risk control, and other aspects still need improvement. However, such enterprises lack supporting platforms, and their abilities for global management and control are not yet mature. In this paper, suggestions have been proposed in terms of these enterprises’ internationalization status.

4.1 Implementing different policies in different regions and optimizing strategic deployment

Intensive measures to deepen localized operation should be taken in the Southeast Asian and Australian markets, which already have the foundation. The relationships with local resources, markets, governments, and residents should be handled well to extend the service value chain and carry out development based on the integration of technology R&D, manufacturing, and services; to optimize the resource allocation; to cultivate the system capacity for turnkey projects; and to improve the comprehensive integration ability. Through various ways, such as trade, operation with license, buyers’ credit, JVs and cooperation, strategic alliances, and mergers and restructuring, efforts should be made to focus on European and American markets with high technical barriers, in order to achieve the desired technology, brand, sales channel, or quality cost conditions, and break down these market barriers. Steps should be taken to closely monitor the potential markets, including South America, Northern and Southern Africa, South Asia, Central Asia, Russia, and the Commonwealth of Independent States, to study and become familiar with local political trends, policies, regulations, and taxes and related situations, and integrate into the local market environment. Through mergers and restructuring, strategic cooperation, and other ways, localized operation should be gradually realized for projects with mature conditions.

4.2 Enhancing localized integration and operation

Efforts should be made to intensify the localized integration into the markets entered and to duly handle the relationships with local resources, markets, governments, and residents. Meanwhile, cooperation with local institutions and social research institutes should be carried out for the deep analyses of overseas markets and improvement of environment assessment capability, while research on overseas markets is further strengthened. Additionally, extending the service value chain can gradually create the product chain and value chain systems that integrate partly completed local R&D, manufacturing, services, purchases, and the supply chain system.

4.3 Sufficient preparation for systemic merger planning, and boosting merger and integration capabilities

There should be sufficient preparation for the systemic merger planning. With the proper support of professional intermediaries to assess the target enterprises, moves should be taken to rationally control the merging pace, evaluate the merging risk, and balance between business development and risk control. After the merger, the brand, human resource management, information resource, and cultural integration should be intensified to improve the enterprises’ integration capability. In addition, the role of governments, financial institutions, and intermediaries should be fully taken advantage of to break down the political barriers and gain funding support.

4.4 Gathering high-end internationalized talents and strengthening human capital building

Recruitment, selection, training, and other methods should be conducted to cultivate a wave of internationalized talents with a rational knowledge structure, wide internationalized horizon, strong innovation awareness, and outstanding cross-cultural communication ability, familiarity with international conventions, and ability to deal properly with all kinds of situations, so as to create a talent pool. The merged enterprises or those setting up overseas plants should try their best to retain the headquarters' existing management team to effectively take advantage of internationalized and localized talents, in order to effectively reduce all kinds of risks during the internationalized operation.

4.5 Creating platforms to support matrix framework and management, and intensifying global management and control abilities

Along with the increasingly deepening cross-industrial development and "Go Global" strategy of CREEs, a multidimensional organizational framework based on a matrix should be gradually developed according to business line, management function, geographic area, and service function, to create a three-layered organizational framework of "head office-professionalized company (platform)-member company," consolidate the professionalized company (platform), and guarantee the high efficiency of the organizational operation. Meanwhile, sound internationally operated systems for strategy, operation, finance, performance assessment, and salary incentives should be established, and so should platforms for overseas financing, investment, training, R&D, and supply chain management; the role of the group in strategic leading and resource supporting should be fully realized, to finally achieve the integrated management of domestic institutions and high-effective global resource allocation.

4.6 Effectively improving risk control capability

Firstly, special research on the development of environment risk among enterprises should be organized and developed to recognize and assess not only the development prospects, business sectors, commercial patterns, and investment fields of the companies in different environments, but also the environment risk of major operating activities, such as M&As and investment and financing, to provide decision-making support for development strategy targets. Secondly, efforts should be made to combine the companies' strategic deployment and industrial optimization, highlight different or new industries and business sectors, organize and develop special work for risk recognition and assessment, enhance the work to deeply integrate risk management and internal control with the organization's strategic and business development, to guarantee risk forewarning and prevention, and to standardize project decision making, execution, and implementation. Finally, an operation that requires few assets should conduct local investment and reduce investment risk mainly through leasing and assisted by localized construction, mergers, JVs, and other ways.

References

[1] Hooley G, Loverldge R, Wilson D. Internationalization: Process, context and markets I Ml. New York: St Martin's Press, Inc, 1998.

[2] Yang D X. Cross-border management and transnational corporation [M], Beijing: China Statistics Press, 2000. Chinese.

[3] Penrose E. Firm growing theory [M], Translated by Zhao X. Shanghai: Shanghai People's Publishing House, 2007. Chinese.

[4] Chen C. Research on the formation and evaluation of intimation-alization competence of manufacturing enterprise [D]. Changsha: Central South University (Master's thesis), 2007. Chinese.

[5] Sui J H. Research on the internationalization competence of Chinese high-tech enterprise [D], Qingdao: Ocean University of China (Master's thesis), 2009. Chinese.

[6] Kiyoshi Kojima. Foreign trade theory [M], Translated by Zhou B L. Tianjin: Nankai University Press, 1987. Chinese.

[7] Feng D L, Shao J C. The research on choice of internationalization mode of SMH in our country [J], Journal of Ningbo Polytechnic, 2005, 9(3): 6–10. Chinese.

[8] Zhu L. International business management [M], Beijing: China Renmin University Press, 1995. Chinese.