

Assignment on International Business Environment

Huawei Technologies Private Ltd.

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International Business Environment

1 Abstract

As a result of the many arguments put out, businesses' internationalization and entrance strategy has gained significantly in importance. However, no conclusive findings have been reached on how companies went global and what variables drove their decision to go global. In light of this new trend, greater research is needed into the companies' internationalization and entrance strategies. There are also various ways in which companies are approaching their target market. To maintain their position at home, some chose to focus on exporting, while others decided to go all-in and invest in the international market. Therefore, it investigated how companies enter the market and what influences their decisions. According to the research after China's economic reform, Huawei opted for strategic alliances and joint ventures to operate in the UK.

2 Introduction

After two decades of growth, many Chinese technology companies have made their first ventures into the foreign market. An example of this is Huawei Technologies Private Ltd. Private hi-tech business Huawei is established in China and is the country's top telecommunications equipment maker in China. About 58 per cent (or USD 4.8 billion) of Huawei's contractual revenue in 2005 came from outside the United States. Less than 4% of Huawei's entire sales came from international markets more than a decade ago. Since the previous several years, Huawei has had tremendous success expanding its worldwide presence. For example, Huawei's innovation emphasis and greater smartphones and 5G infrastructure, its strategic collaboration in developed nations, and adaptability to local legal, technical, and political difficulties in diverse markets exemplify its standardization and adapting tactics.

Things, however, are not going to go according to Huawei's plan. The UK's 5G industry has been curtailed due to national security and cyber-security concerns. Therefore, Huawei's international entrance strategy is established and presented an empirical study from Huawei's organizational structure.

3 National Competitive Advantage Analyses

The competitive analysis aims to identify rivals and understand their strengths and shortcomings. It gives you a better idea of dealing with competition and developing a business plan.

To examine that Huawei, a China-based telecom multinational firm, has already excelled in several aspects of its business, including technology, business, and marketing strategy (JIA SIPA 2021). However, Huawei's 5G business strategy in the UK is hindered by national security and cyber security worries. Until now, Huawei's new business endeavour in the UK has been accused of Chinese government assistance for the company's technological growth in the form of 5G (JIA SIPA 2021). In this regard, the Porters' framework will be underpinned to discuss the different internal and external factors that can influence the foreign entry strategy of Huawei to operate its business based on technology introduced in the UK?

3.1 Porters Framework

According to Michael Porter's theory of National Competitive analysis (NCA), a diamond-shaped framework, some countries' sectors are competitive globally while others may not be. That is the basis of the National Competitive Advantage Analysis (NCA) methodology. According to Porter, many interconnected factors determine a company's capacity to compete globally, and they include the company's strategy, structure, and competitive rivalry; the availability of factors; the state of the market; and related and supporting sectors. As a result, local businesses are forced to constantly innovate and update (*Porter's Diamond Model EXPLAINED with EXAMPLES / B2U 2018*).

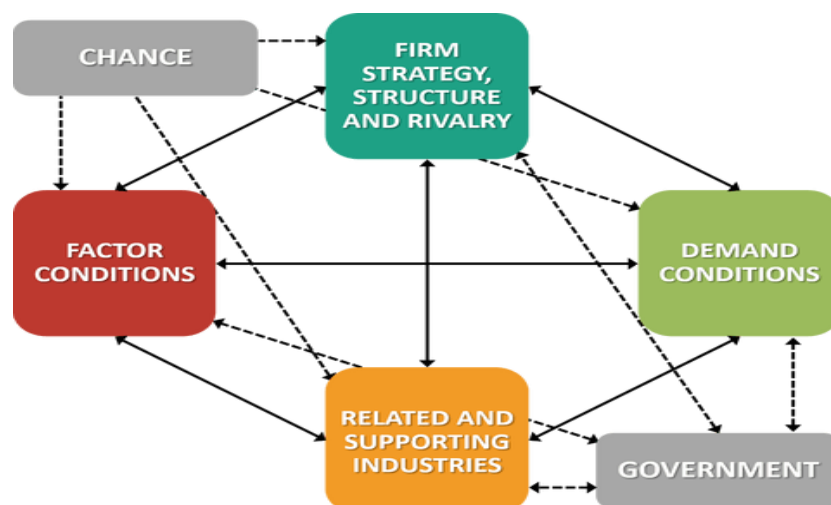


Figure 1: Porter's Diamond Model of National Competitive Advantage

- **Firm Strategy, Structure, and Rivalry**

A Company's national setting significantly impacts how it is founded, structured, and maintained. Internal competition is also essential to a company's ability to compete globally since it pushes them to build new and distinct strengths and skills throughout time. As domestic rivalry intensifies, businesses are pushed to adapt and improve to maintain their competitive advantage. (*Porter's Diamond Model EXPLAINED with EXAMPLES / B2U 2018*). In Japan's automotive sector, there is much fierce competition between Nissan, Honda, Toyota, Suzuki, Mitsubishi, Subaru, and other manufacturers.

- **Factor Conditions**

Natural, financial, and human resources all have a role in determining a country's factor circumstances. Investors are drawn to countries with abundant natural resources, such as oil, making them desirable locations (Saudi Arabia). Resources such as a well-trained labour force, sound infrastructure, and scientific expertise are examples of what we mean when we say "human resources." In contrast to circumstances already there, Porter contends that these "generated" factor conditions are critical.

- **Demand Conditions**

Domestic demand is strongly influenced by the degree to which a country's industries are competitive. An expanding firm has an increasing number of challenges and opportunities. Sophisticated consumer demand circumstances also encourage businesses to expand, develop, and enhance their quality local customers. To fulfil the positive ambitions of their domestic market, companies must aim for elevated levels and, in certain situations, get advanced insight into the development wants of customers from other nations.

- **Related and Supporting Industries**

The primary sector can achieve its full potential when supported by complementary and ancillary industries. Innovation is fuelled by suppliers, who give higher-quality, more efficient inputs, quicker feedback, and shorter communication channels. When a nation's vendors are also international competitors, the nation's income elevate more than any other. Long-term, sustained effort and financial resources are needed to build a strong home economy that can compete on a global

scale. Its presence, however, may frequently be beneficial to a whole area or country if certain conditions are met (Porter's Diamond Model EXPLAINED with EXAMPLES | B2U 2018).

- **Government**

To put it another way, when it comes to Porter's Diamond Model, the government is defined as both a "challenger and catalyst." Porter does not believe in free markets where "the invisible hand" decides on everything when it comes to economics. The government is not Porter's primary source of support for the economy. Only private enterprises can establish industries that are competitive with one another, not governments. Companies should be encouraged and pushed to elevate their goals and compete at a higher level by the government, not the other way around (Porter's Diamond Model EXPLAINED with EXAMPLES | B2U 2018).

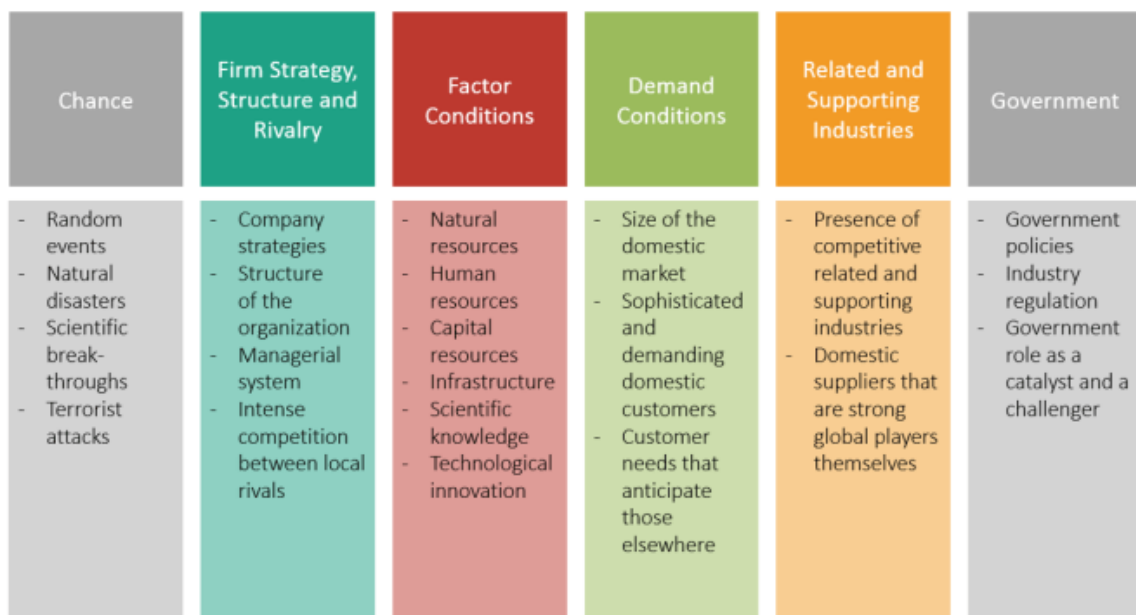


Figure 2: Porter's Diamond Model factors

3.2 Analysis

PESTEL and Porter's Five Forces analysis of the macro-environment and industries are also advised. As a result, the Diamond Model may be used to evaluate foreign markets for possible entrance or make foreign direct investment choices.

PESTEL Study and Porter's Five Forces should also be used for a macro-environment and an industry analysis, respectively.

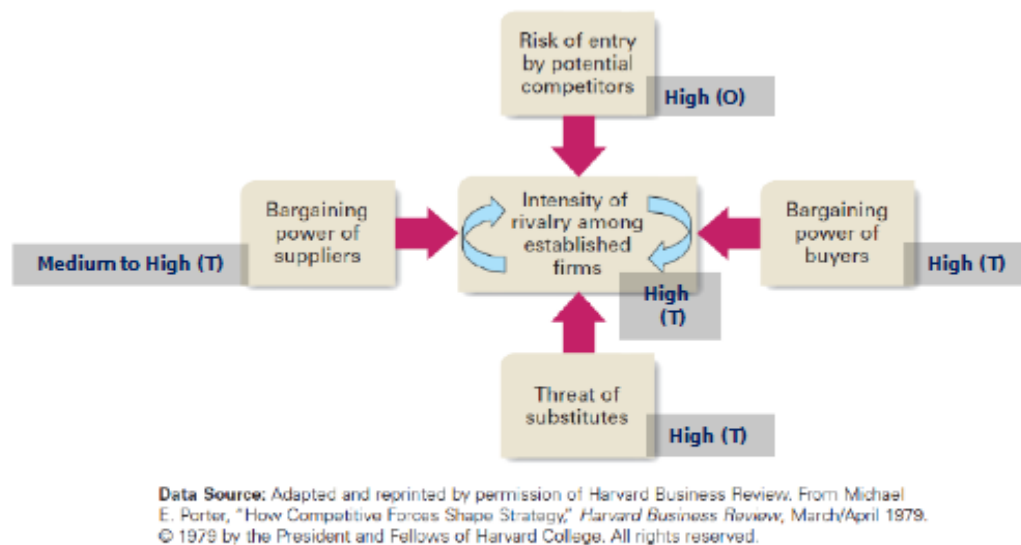


Figure 2. The Porter's Five-Forces Model. Adapted from *Essentials of Strategic Management, Third Edition* (p. 57), by C. W. L. Hill, and G. R. Jones, 2012, Mason, OH: South-Western, Cengage Learning. Copyright 2012 by South-Western, Cengage Learning.

4 National Institutional Analysis

4.1 Theoretical Framework

Research shows that understanding the idea of institutional isomorphism is critical to understanding the core causes of organizational change and growth in modern organizations and institutional theory. The goal of DiMaggio and Powell's isomorphism theory, which they created in the early 1980s, is to provide light on the numerous factors that lead organizations to adopt uniform forms and procedures.

In their opinion, it is a sociological hypothesis that explains how different organizations evolve to seem the same over time (Liu 2020). However, according to Liu (2020), it is a condition in which companies are convinced to follow the practices and processes described by current rationalized notions of organizational work and institutionalized society. An organization is said to be homogeneous or convergent under its social embeddedness or compliance, which is pushed by external influences such as state laws and legislation and rivalry, and by the strength of such social embeddedness, standardization may be said to arise.

4.2 Home Institutional Environment

Over the last 30 years, Huawei has become the world's biggest telecommunications corporation, claiming \$123 billion in sales in 2019, an increase of 19 per cent from 2018. In light of the firm's recent success, many people believe that the Chinese government has had a greater influence on the company than its officials have admitted to having.

When the Chinese government and military started recognizing Huawei as a "national champion" in 1996, it was an honour bestowed on just those companies that helped advance China's strategic goals. As a result of the Chinese government's support for Huawei in 2018, the company received \$222 million in government funding alone (Liu 2020).

Huawei has been able to lower the cost of its network equipment because of this assistance. Regarding the Netherlands' national 5G infrastructure, Huawei underbid Ericsson by 60%. China's state-owned banks also provide nations low-interest loans to utilize Huawei's products.

As the world's leading R&D (Research & Development) spender, Ren claims that Huawei spends more on R&D than other publicly traded companies. Huawei is now on par with Alphabet and Amazon regarding R&D investment after investing \$15 billion in a year (Liu 2020).

4.3 Host Institutional Environment

In the United Kingdom, Huawei has been in business for almost two decades already. Winning British Telecom's 2005 supplier auction and boosting their market image might be one such momentous instance in the United Kingdom (Li & Sun 2017). Later that year, Huawei entered the European mobile market. Huawei has opened almost two R&D centres in Europe in the space of a year from 2011, with one of those centres being in Bristol, England (Li & Sun 2017). A major focus on cooperation with industry leaders and their research efforts is the fundamental strategy for market expansion.

Things, however, are not going to go according to Huawei's plan. The UK's 5G industry has been curtailed due to national security and cyber-security concerns. According to Fortune 2020, Huawei launched an advertisement campaign in the United Kingdom in June 2020 in response to the National Cyber Security Centre's (NCSC) newest assessment deeming Huawei a "High-risk" organization. Because the

UK government agreed to let Huawei participate in the domestic 5G network in March, but only after considering NCSC's proposal to cap Huawei's market participation at 35%, this is the consequence (Li & Sun 2017).

Five-Year Financial Highlights

	2018		2017	2016	2015	2014
	(USD Million)	(CNY Million)		(CNY Million)		
Revenue	105,191	721,202	603,621	521,574	395,009	288,197
Operating profit	10,689	73,287	56,394	47,515	45,786	34,205
Operating margin	10.2%	10.2%	9.3%	9.1%	11.6%	11.9%
Net profit	8,656	59,345	47,455	37,052	36,910	27,866
Cash flow from operating activities	10,889	74,659	96,336	49,218	52,300	41,755
Cash and short-term investments	38,777	265,857	199,943	145,653	125,208	106,036
Working capital	24,921	170,864	118,503	116,231	89,019	78,566
Total assets	97,109	665,792	505,225	443,634	372,155	309,773
Total borrowings	10,201	69,941	39,925	44,799	28,986	26,108
Equity	33,994	233,065	175,616	140,133	119,069	99,985
Liability ratio	65.0%	65.0%	65.2%	68.4%	68.0%	67.7%

Note. Reprinted from Annual Report 2018 of Huawei Investment & Holding Co., Ltd. (p. 8), by Huawei Investment & Holding Co., Ltd. Copyright 2019 by Huawei Investment & Holding Co., Ltd.

4.4 Comparison and Implications on International Business

After making its initial foray into Europe in 2000, Huawei has operations in 18 countries throughout Europe, including 16 parts of the European Union. In Europe, over half of the 4G equipment was given by Huawei (Li & Sun 2017) and this activity was primarily to expand its worldwide manufacturing network. It has a presence in central Europe with about 25 offices (Li & Sun 2017).

The means of entrance must be chosen before strategizing in this sector. According to Wu and Zhao (2007), the most common approaches in Europe include collaboration, such as research, development, production, and marketing. For example, for product development in Europe, Huawei collaborates with Marconi. Both Marconi and Huawei benefit from one other's marketing efforts in China. (Grosse, Gamso & Nelson 2021).

There are severe worries about national security and cyber threats from an accusation that Huawei is a Chinese government-owned firm operating under the 5G

flag (Grosse, Gamso & Nelson 2021). Similarly, the United States and its allies pushed the United Kingdom to ban Huawei telecom equipment from its jurisdiction. As a result, the host nation's government and its institutions are not welcome Huawei to establish any new technological ventures in the UK (Grosse, Gamso & Nelson 2021).

In its annual report for 2019, Huawei (2019) said that it aims to establish a completely integrated and smarter world. This strategy has four main pillars: ubiquitous connection, omnipresent intelligence, personalized experiences, and a digital platform (see diagram below).



(Huawei, 2019)

5 Organizational Structures

5.1 Internationalization Strategy

From an entrepreneurial standpoint, Svante Anderson introduced internationalization models in 2000. He explains the role entrepreneurs play in the process of internationalization (Muralidhara & Faheem 2019). There are three categories of entrepreneurs: the technical entrepreneur, the marketing entrepreneur, and the structural entrepreneur. Each has its own set of strengths and weaknesses.

It may be a success when it comes to product marketing in Britain. However, Huawei's internationalization approach based on technology seems difficult to maintain in the UK market. In a statement, Vice-president Victor Zhang reiterated that

Huawei is committed to delivering dependable and fast 5G networks throughout the UK and openly discussing and cooperating with the inquiry (Muralidhara & Faheem 2019). "The Commitment," a campaign aimed at responding to the UK's concerns, addressed several critical issues (Muralidhara & Faheem 2019). Unverifiable accusations were conveyed as facts amid an uncertain period when Huawei's positive responsibilities in creating employment training engineers for the future, investing in technology, and promoting universities and Huawei were highlighted in the campaign. Under some circumstances, such a business model may present another more ethical image.

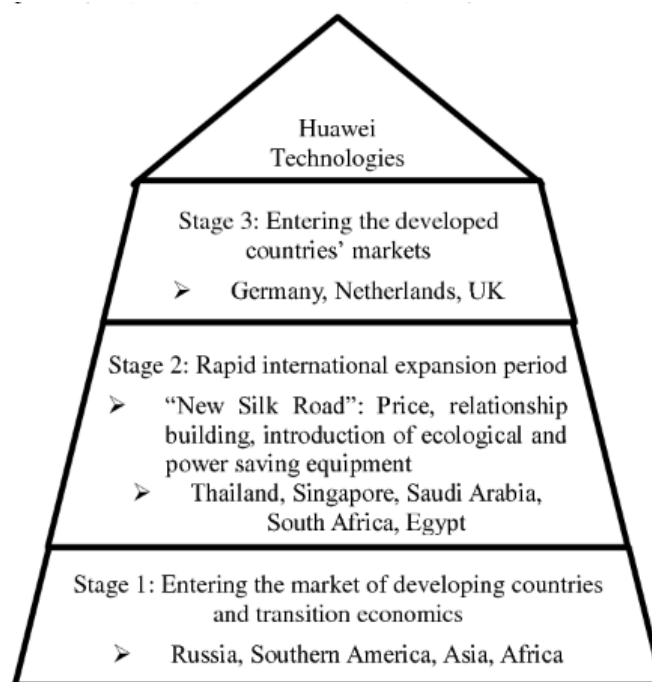


Figure 1. Huawei's development in the global market

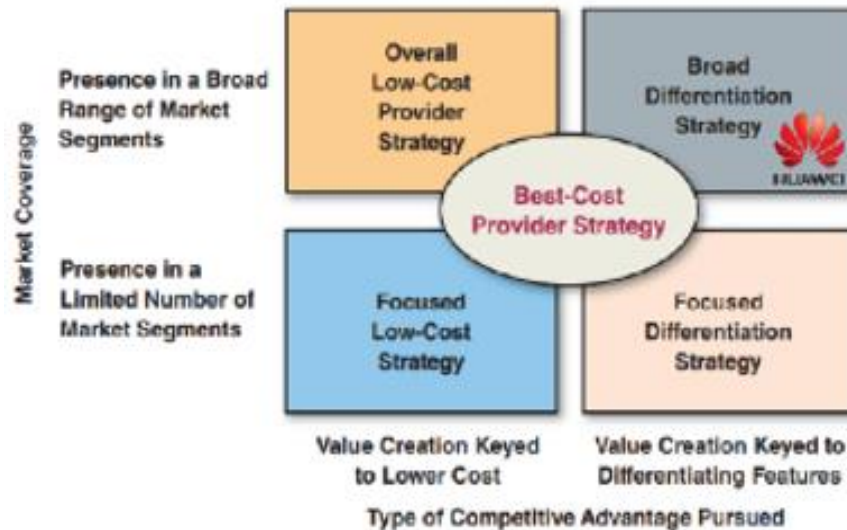
Keywords-in-context	Interpretation
Huawei have the international alliances like Accenture and Huawei will be stronger if all are aligned	Alliance is important but maybe not for now
Especially for the future development, the partner alliance is more important than current stage	Alliance is important but maybe not for now
Alliances and partnerships are key to enter the market with huge players	Alliance is key to enter the global market for Huawei
The integration of competitive moves in HQ and subsidiaries need to be focused	Integration of competitive moves need to be focused
We also made a competitive move by starting two business groups to focus on the particular markets	The competitive moves is important
Huawei is gathering the information of the competitors and creating their own moves based on competitor actions	Huawei integrates the competitive moves based on the competitors' moves

The table mentioned above shows the analysis with keywords in context.

5.2 The Structure Strategy Fit

Generally speaking, Huawei concentrates on technological research and development instead of other commercial areas. External threats include controlled and uncontrollable elements that may or may not affect a business. No matter how dangerous it may be in the host nation, intense competition is a challenge for the organization (Muralidhara & Faheem 2019).

By setting the four strategies of ubiquitous connection, pervasive intelligence, customized experience & digital platform, Huawei can realize its objective of developing a completely integrated and smarter world and the UK marketplace (Muralidhara & Faheem 2019). For example, it may be concluded that Huawei should establish a differentiated marketing strategy that provides a wide variety of market segments and value creation keyed to distinctive qualities, as seen in the image below, as its current strategy and business characteristics.



5.3 Impact of Home or Host Institutions

It is encouraged to focus on the client with internationalization, and Huawei has adopted this mind-set in their internationalization efforts (Muralidhara & Faheem 2019). Because of security concerns, governments in countries like the United Kingdom will not allow Huawei to make technological advancements. Because of this, the host country's principal goal has become its national interests. Although adopting 5G technology in the UK will be more expensive and take longer, the nation's leaders are adamant about finding an alternative method of advancing technology.

6 Foreign Entry Strategies

6.1 Evolution and Current Form

The UK's security mitigation policy, in general, and for individual vendors, has undoubtedly developed since then. The shift to 5G represents a new development in technology, and the UK's security measures need to keep pace.

In the NCSC's eyes, Huawei is not the only high-risk provider. Under the HRV (High-Risk Vendors) system, vendors are classified as high or low risk in the United Kingdom. The UK should also consider the vendor's product development process, the country in which it is based, and the legal framework in which it operates (in Huawei's case, Chinese intelligence legislation applies).

High-risk vendors' framework details limits and controls that host countries put in place to minimize the danger of engaging high-risk suppliers like Huawei (Staff

2020). Some of the following are required when the UK classifies an organization as a "high-risk" vendor:

This country has a choice to prohibit its usage in other essential infrastructure segments, including the transportation sector, important systems for public security, and sensitive departments within the armed forces.

Huawei also requires a customized mitigation approach for each high-risk vendor. An organization like NCSC is needed to do this task. Huawei's current mitigation plan will be updated to include this new approach (Staff 2020).

Finally, the UK must ensure that operators who engage high-risk suppliers like Huawei consider the consequences and build their network, technical and operating systems, and procedures to handle those risks. Put another way; the United Kingdom will be required to assist them. As the UK's national technical authority for cyber security, NCSC is mandated by the government and is in charge of the long-standing Huawei mitigation policy and knowledge of other vendor practices and access to national intelligence apparatus. It also has a world-class vulnerability research team, international collaborations, and the data, skills, and capabilities necessary to determine how risks might be prudently handled (Staff 2020).

China, on the other hand, continues to give Huawei directly and indirectly subsidies after the ban, including promised market dominance inside China and cheap loans from Chinese state banks, which lower Huawei's operating expenses, shorten supply chain efficiency for Huawei's goods, and enable it to sell its devices considerably below the pricing set by its rivals.

6.2 Impact of Home or Host institutions

The host country institutions, including the Government of the UK, are not any more welcoming to pursue their technological ventures with Huawei. It is because the host country's government is under the condition of threat and external pressure. When national interest is at stake, institutions and various departments related to business can never trespass the sanctity of the country. Therefore, Huawei has to deeply workout on a political level to come up with a solution; otherwise, the interest of Huawei to evolve again in the host country could be at stake (Tsang & Fuschi 2020).

On the other side, Huawei is dominant and has been supported financially by its home country to subsidize the company's manufacturing costs and sustain the face value of the share of Huawei.

7 Foreign Exchange Risks and Mitigation

A thorough study of liquidity in the market and hedged costs is conducted under the Huawei-defined foreign currency risk management strategy. The Huawei team has designed foreign exchange management rules, procedures, and instructions. These are a few of the possibilities:

- Natural hedging: It is the goal of Huawei to ensure that the currencies used for purchasing and selling are as close as feasible."
- Financial hedging: When spontaneous hedging does not adequately balance the different currencies' position, Huawei uses forward foreign exchange operations to protect itself (Tsang & Fuschi 2020).

Huawei uses various tools to manage currency risk, particularly currency exchange safety and economic hedging, in countries with volatile native currencies or strong foreign exchange regulations. Aside from implementing expedited customer payments and quick cash transfers out of these nations, Huawei also implemented other measures to reduce risk (Tsang & Fuschi 2020).

(CNY Million)	2020	2019
USD depreciates by 5%	1,350	2,427
EUR depreciates by 5%	270	117

8 Conclusions

When it comes to understanding the characteristics of internationalisation in high-tech enterprises, the Porters Diamond Model does an acceptable job. Joint ventures and contractual entry methods are regularly used to enter new foreign markets. For high-tech companies, the structure or qualities of the industry have a key role in their decision to join overseas markets, according to this study's findings Hi-tech companies tend to place less importance on firm characteristics when deciding how to join the market. In light of the preceding debate, it can be concluded that Huawei is having a hard time establishing itself in industrialised nations like the United Kingdom. Huawei has to re-enter the market in

industrialised nations in order to prevent this unfavourable effect. It is recommended that Huawei's high-tech business choose to establish a Research and Development department or incorporate sister firms in developed nations like the UK in order to create a global market share that has been tainted by unconfirmed allegations of trespassing national security danger.

While Huawei is now on a course to become the world's largest 5G cellular mobile network infrastructure vendor, the company is not alone in its efforts. Because of Chinese industrial policy, Huawei has been able to ascend to prominence during the last two decades. The first step to be taken with a more open, safe, and diversified mobile network environment is to actively resist these regulations. All countries that desire a business-friendly environment over one where Beijing dictates global market results would profit from this change. It is possible that the measures indicated above will assist the United Kingdom in charting a new course in this direction.

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