

Determinants of international competitiveness. West versus East

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05. February 2009

Online at http://mpra.ub.uni-muenchen.de/35513/ MPRA Paper No. 35513, posted 20. December 2011 / 21:21 **Determinants of International Competitiveness. West versus East**

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Key words: competitiveness, international, relations, strategy, Asian companies

Summary

In the article, on the basis of literature from the areas of management, strategic management, international

management and sociology, there have been distinguished two types of firm's actions in order to achieve global

competitive advantage by companies; firstly, internal actions and secondly, strategic manoeuvres. Based on such

constructed structure, there are eminent features, which are indispensable to build a competitive advantage in

contemporary, global reality. Taking into account characteristics which can influence developing a competitive

advantage in an uncertain environment, they seem to reflect some of the attributes of Asian organizations -

adjusting to continuous changes, "vigilance", flexibility, pro-partnership, increasingly successful in a global

scale.

Facing the Challenge of Global Competition

Contemporary companies operate in conditions where rules change quickly; there is

neither a single and defined way to achieve success nor a specific solution for managing a

company. Among the key skills, however, is the ability to react quickly to all changes in the

environment. Other then establishing a unique strategy, having advanced knowledge and

creating innovative solutions, it is also necessary to act efficiently and know how to use

opportunities, create synergy and possess imagination in order to conduct a creative synthesis

of all mentioned elements and consciously form a company's value. The causes of this state

of affairs may be due, first of all, to change of consumers' needs, enormous technological

progress and globalization processes (Zorska, 2000, Obłój, 2007).

Many sectors especially those where the use of modern technology is increasingly

important, become global - thanks to the development of technology, more accessibility to the

Internet, easier communication and faster information exchange. Organizations, which are

recently active only on the local market, start competing on international markets.

By moving from local competition into global, a radical change has taken place in the

rules of gaining and maintaining competitive advantage, combined with a company's ability

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to create higher value for its clients in comparison with other companies. It is done by diversifying products, price policy, quickness to respond to demand and/or the mix of these factors (Porter, 1985, Bhide, 1986, Prahalad i Hamel, 1990).

The nature of an international company changes and because of that, new competition rules emerge. Traditional contacts are not enough, borders between sectors moved, new technologies and the Internet allow local companies to become global in quicker and cheaper ways. In many sectors, whole systems have become the subject of analysis, not particular companies anymore – thanks to globalization and the Internet, there is fluidity between sectors' borders, economy of scale and knowledge transfer. The efficient management if an international strategy means a need of building the company's uniqueness in a way that is innovative and difficult to understand for competitors (Obłój, lectures, 2006).

A firm's survival and its development is currently more and more connected with its internationalization and competitiveness in the global environment. In the article entitled "Toward global competitive advantage" (Hao Ma, 2004), in which the author, on the base of strategic management and international management literature, tries to create foundations of a structure that combines available knowledge about building the competitive advantage in conditions of global competitiveness. The author remarks that a company must systematically and precisely analyze this what it owns, what it is able to do, how it works and what it can gain according to three classified types of the competitive advantage — based on the ownership, access and efficiency. Two types of actions are distinguished in order to achieve competitive advantage by a company: firstly - management actions and secondly - strategic manoeuvres.

Management actions are related to activities that are concentrated on work inside a company. They help increase firm's potential and its direct contribution to the competitive advantage while on the other hand, strategic manoeuvres include external actions taken by a company. In order to create a knowledge systemizing structure in this subject matter, four basic sources of the competitive advantage are identified by the author, called 4C (Creation, Competition, Cooperation, Co-option), which means creation and innovation that belong to management activities (Hamel and Prahalad, 1989; Schumpeter, 1934, 1950; Senge, 1990) and which is a part of strategic manoeuvres: competing (Chen, 1996; D'Aveni, 1994; Porter, 1980; Smith, 1992), cooperation (Contractor and Lorange, 1988; Dyer i Singh, 1998; Hamel, 1989; HBS, 2002) and co-option/co-opetition (Bailey, 1997; Brandenburger and Nalebuff,

1996; Doh, 2000). Such a choice of these determinants of the competitive advantage is mainly caused by a long research tradition, a solid theoretical basis, empirical researches of these factors, their influence on companies' competitiveness as well as a possibility of adjusting them to the global competition conditions. There are many literature studies related to this, such as: joint venture companies and strategic partnership that may help in establishing the competitive advantage in the global environment (Gomes-Casseres, 1994; Hamel, 1989; Kogut, 1988; Yan, 1998; Low, 2005). There are ample examples of successful companies operating this way.

In the further part of the article, in accordance with the proposed convention and on the basis of available literature, there are described internal and external desirable management actions of companies which are to process them and develop in conditions of "generalized uncertainty". At the end of the article there is raised an issue of Asian companies that better and better handle situation in these conditions also in a context of culture differences. There are bases to assume that they have some of key characteristics that are in favour of building global competitive advantage. During a current economic crisis, when the effectiveness of "the only correct" American model of capitalism is undermined, issues related to the global expansion of Asian firms and their influence on the future of the world economy are becoming extremely important.

Management actions

The term of Knowledge-Based Economy reflects the presence of new economic facts which rely on greater importance of innovation for companies' activity and wider participation of economic organizations in creating science (Hryniewicz, 2007 p. 242). Krzysztof Obłój already noticed in 1993 that without non-material resources (intellectual capital), which have a complementary attitude towards material resources, every strategy and strategic advantage is only temporary and uncertain. As it results from literature, **the knowledge is a base for innovation development** and the increase of intellectual capital value of an organization (Grudzewski and Hejduk, 2002). It belongs to resources and enables organization to survival in situations of discontinuity, "generalized uncertainty" and to maintain its steerability (Obłój, 1993, Koźmiński, 2004).

Abilities to gain, accumulate and use the knowledge for creating a strategy have become a basic factor that enables a company adopting to changing environment (Orlikowski, 2002, Lei, 2003). Competent knowledge and intellectual capital management creates changes

of increasing competitiveness and effectiveness. Narasimha (2001), Miller (2002), McEvily and Chakrabarthy (2002) also agree that the greatest organization's skill becomes generating, integration and distributing the knowledge. The innovation, that arises - according to Drucker (2002) - from the knowledge, is connected with the openness to receivers' and innovators' needs, consumers and producers, knowledge creators, culture goods and their receivers, innovators as well as people who deal with its adaptation. It is also the openness to diversity, unusual attitudes and other culture patterns (Baczko and others 2005). A company that wants to be innovative, wants to have a chance to succeed and prosperity in times of rapid changes, must **create a competent, enterprising managing group inside its own system**. It has to adopt a policy that will arise in the whole company "appetite for innovations" and create customs characteristic for innovation and enterprising. A firm, small or large, that wants to achieve success as an entrepreneur, has to be managed such as entrepreneur (Drucker, 2002 p. 217). 2002 p. 217). Therefore, it is important to create such an organization culture where employees would significantly influence on company's value and create innovations on every level of its organization structure.

A key factor that determines a company's success is gaining and maintaining more talented people than competitors do (Rybak, 2003). According to the McKinsey's consultants, in order to gain talented employees and keep them in the company, it is worth looking at issues of human resources management especially from the perspective of managing these talents (Michaels, Handfield-Jones and Axelrod, 2001) as well as taking into consideration a significant role of the appropriate leadership types and organization culture in the process of creating conditions for employees' initiatives in companies (Hryniewicz, 2007). The change of "human resource management" into "talents management" was proposed among others by Tom Peters (2005) who marked the raising importance of gaining talented and outstanding people. According to Hryniewicz (2007) an important characteristic that has influence on companies' effectiveness and their ability to innovativeness, includes abilities such as cooperation, self-organization and initiative. One of the most important culture patterns that enables group cooperation through the self-organization is trust - that means a belief that other people are driven by the same moral principles as ours (Hryniewicz, 2007).

According to Koźmiński (2004), a quickness condition of flexibility and its innovativeness action is confidence in subordinates, co-operators, partners and supervisors. The confidence is closely related to social capital that is built in a long historic horizon and which concerns the whole society that is the common good (Putnam, 2000).

Social capital, the term proposed among others by Fukuyama (1995, 1999, 2000), may be priceless for economic processes by making easier economic interactions and lowering transaction costs. It may be as important as organization's fixed capital. According to Czapiński (2006) the social capital means social networks that are regulated by moral or custom standards that combine an individual with the society in a way that enables its cooperation with others for common sake. It is observed that the social capital is positively correlated with the organization's competitiveness, especially on a global scale.

Hryniewicz (2007) and Koźmiński (2004) point out a **significant role played by the management and leadership** in creating climate that supports initiative and innovation in companies. Hryniewicz distinguishes three basic management types – democratic style (a manager encourages to take part in group discussions, implements solutions adopted by the group) or participation style, a commander's style – autocratic style (a manager gives orders, acts according to own opinions), bureaucratic style (a manger appeals to principles, plans and orders of superior levels). To the democratic management style there is assigned positive behaviour from the point of view of organization activity, the commander's style is in contradiction with it, the bureaucratic style is neutral in comparison with two previous styles. The commander's style is defined as anti-innovative (Hryniewicz, 2007).

There appears in field literature on management in uncertainty, the term "resistance" – which relates to survival skills during tough times on individual and organizational levels. Success, now, depends on this. It is related to the ability of taking the reality and controlling it, learning how to overcome difficulties before they appear and abilities of improvisation (Coutu, 2007). From researches conducted at the University of Michigan in 2007 (Dutton, Frost, Worline, Lilius, Kanov), results show that only empathic managers are able to provide conditions for open expression of emotions and create a healthy environment for taking actions without a distracting atmosphere of suppressing negative emotions and feelings. In addition, a leader for tough times should concentrate on results, go abroad known territories, lead to ambitious results while being guided by internal principles that are in accordance with his or her values. He or she should concentrate on others more than on himself or herself, be able to listen and be orientated when there is a need for rapid changes. The leader should inspire others to improve efficiency (Quinn, 2007), upholding principles that are in accordance with his or her values. He or she should be like an artist; an open minded and is people, group and cooperation oriented, a person who is creative and socially

sensitive, utilising "human emotions technique" as a leadership type, a person who is able to face the changing environment.

Strategic actions

A classic statement in competitiveness theory - "profits are only consequences of relations of tenders between a company and its clients, suppliers and competitors", does not seem to fully describe the complexity of competing conditions in light of changes in economic practices (Lozano and Sysko-Romańczuk, 2006). According to Perechuda (2005), presently the resource-based theory of building competitive advantage is not efficient enough. A modern company is more than ever, a system of relations. There arises a question about the definition of and the optimization of relations system in a modern company. Relations have only non-material character and unfortunately, in the ever changing environment they are not long-lasting. While designing a specific system of relations for a particular company, however, we should try to design a long-lasting array of possibilities that decide on the strength and ability of the organization to survive in the long-term run (Perechuda, 2005).

According to Obłój (2001), firms' strategies that are used for gaining and maintaining competitive advantage in the market may have a form of confrontation, building a niche or avoiding competition. At present, a protectionism method of one's own market, which is increasingly used, is done through building networks of common ventures with potential competitors - building strategic alliances (or strategic partnership). Experiences of developed countries show that in a contemporary economy, companies increasingly function and develop by using a strategy of alliances that may be regarded as a main form, which creates new possibilities for their development in the global environment (Chwistecka-Dudek and Sroka, 2000, p. 10). Alliances are at present one of the most efficient competitive forms on international markets. It can be said that we are entering "a game of strategic alliances" (ibid, p. 19). On the other hand, alliances which consist of many partners, a group of alliances, are called clusters, networks, virtual corporations, constellations, etc. (Gomes- Cassers, 2002).

In Obłój's opinion (2006), one of the causes of globalization is the "blurring" borders between sectors and thus many companies compete and at the same time cooperate in various fields. The co-opetition phenomenon in question means simultaneous competition and cooperation of companies in the market (Obłój, 2007, p. 112). Co-opetition according to Branedburger and Nalebuff (1998) shows multipronged business relations and enables creative search for new possibilities of gaining competitive advantage. Sources of competitive

advantage should be searched by small and medium companies in such cooperation with their environmental partners that is characterized by co-evolution and co-opetition. The ability to form and organize such relations (key competence) is nowadays, for many companies, a competitive necessity which helps them survive. (Romanowska and Trocki, 2002).

Companies become customers, suppliers/service providers, competitors and partners all at the same time. They are under mutual co-evolution both in the scope of competitiveness as well as cooperation. The co-evolution is connected with sharing the same vision, entering into alliances, negotiating agreements and establishing extensive relations on a management level as well as administrative level (Brilman, 2002, Moore, 2001). Merrel (2007) uses the term Innovative Economy in reference to the partnership between universities and companies, which is to introduce universities and potential employees to real needs of the labour market, the newest technologies by creating training centres as well as tests and demonstration laboratories.

According to Prahald (2004) and Gulati (2007), organizations that engage customers in designing, testing, marketing and post-sales processes (in literature appears the term cocreation) better reach customers' needs, adjust themselves to customers' behaviour and also are able to build greater loyalty, shorten production cycle and lower costs of gaining clients. It becomes especially topical during the Internet development, better communication, interaction and users' activity (including Web 2.0). It also enables contribution of users in services, products and content creation. For a few years, Gulati (2007) was conducting researches of 112 companies from a list of 1000 Fortune companies in the context of created network relations with customers, suppliers, partners and internal business departments. He noticed that an important meaning is assigned not only to the number of relations with cooperants but also to their quality. Only when the resources in the form of relations start gaining the strategic value, can it be said about their effective use. One of the directions in multi-dimensional Gulati's analysis is customers. They are not currently passive receivers of a company's products and services. They are rather individuals for whom companies exist and solve problems (Day, 1999, Hammer 2001, Kumar, 2003). Romanowska and Trocki (2002) sum up that in management theory and practice during the last several years, divisions are being erased - from enemies to friends; competitors to partners. Nobody can afford ruthless struggles and the belief that agreement and cooperation bring more benefits for all is becoming more common. According to various authors, an ideal company is a "cooperative company" - it searches cooperation not competition. It establishes numerous agreements with

suppliers, receivers as well as alliances with competitors in order to build a competitive market offer without a necessity to have own resources. Nevertheless, Branedburger and Nalebuff (1998) remarked that it should be reminded that cooperation is also a form of competition.

West versus East

Rapid technological growth during the last decades was one of the causes of increasing uncertainty in the environment. On one side, it enabled the creation of totally new business enterprises – such as Internet banking, electronic money and establishment of on-line broker services or electronic sales systems. On the other hand, globalization that occurred just after it, provided not only a possibility of easier trade exchange, greater possibilities of searching new consumers and attractive markets for mass production of former economic powers such as USA or West Europe, but also a possibility for previously poor and backward countries (such as countries of East and South-East Asia)* to have access to information, technologies, innovations and international markets. Consequently, it means active participation in globalization processes and considerable influences on intensifying uncertainty that becomes more severe during the current financial crisis in the USA. Perhaps in response to this crisis, the United States would prepare another innovative solution (the same way it did during the previous economic crisis) that would assure them further privilege of forming the economic future of the world. New conditions, nonetheless, that are related to the above described phenomena and which may be important in further formation of the future economic reality of the world, are also worth taken into consideration.

Due to the described changes and influences of Asian countries on the Global Economy, it might be difficult for the United States to maintain its role in 'Americanizing' the world; since the 1990s, the United States has been "the only capitalism model, a pattern of economic and social organization that many countries are emulating" (Koźmiński, 2004).

As a result of described changes connected with technological development and globalization, poor countries in the 1950s such as China, India, Taiwan, Hong Kong, Singapore are currently assigned to a group of the most advanced countries. The European

^{* &}quot;Asia" is a term for a collection of many different nations. In this article the term means China primarily (with Hong Kong as a part of it at present). Taiwan and Singapore are treated as China related countries.

Union as the greatest and the richest world region is not growing. It is behind the USA in technological development and is characterized by high unemployment rates and inefficient social safety systems (Obłój, 2006).

On the other hand, China with its exorbitant pace of economic growth during recent years, counts on moving economic centre to the Middle Kingdom (Zhong Guo). Despite unquestionable internal problems and unquantifiable intensive development, there might be a constant and significant share of China in the global growth of trade and foreign investments. Additionally, more and more Chinese companies are becoming successful global players, competing with American and European corporations (e.g. Huawei, ZTE in a telecommunication industry) (Low, 2007).

The Chinese competition model is based on investment, know-how and the knowledge of global markets that mainly come from foreign Chinese investors who become a key connector between China and the global economy in the 1980s and 1990s. These relations (Chinese business networks) were in majority, based on personal relations (guanxi) that created a business network (a phenomenon that is called guanxi capitalism). According to Dwight H. Perkins: "the Asian method of being in business as well as relations between business world and government spheres are, in a longer perspective of time, a form of efficient adaptation to conditions in which lacked one of elementary growth elements – the rule of law. Although this system creates numerous scenarios that can almost be generalised as corruption actions, the system itself was not corrupted, at least according to the principles that dominated in the East and South-East Asia during the last half century."

Results from researches conducted by O. Yau for Chinese University in Hong Kong as well as by A. Mackinnon from Stirling University in Great Britain, show that Chinese managers are more group orientated. They can flexibly adapt to new conditions, cultures and principles. This is related to their recognition in greater degree, the multi-dimensional nature of a situation as well as their belief in the continuity of events (which is also connected to relations). Once a relationship is established, according to a Chinese proverb, "If you have become my teacher for a day, I will treat you as a father forever", it becomes valuable and difficult to destroy. This is why it is not surprising that establishing and maintaining lasting relations on many levels, the culture gearing towards cooperation with partners, supplier, customers, the cooperation based on trust, have become an indispensable and basic element that enables the running and developing of businesses (Fung, Fung, Wind, 2008). It is also

observed that, despite popular opinion that Asians are not individualistic innovative, their efficiently established active cooperation with other countries, innovators and companies, show a model of "cosmopolitan innovation".

The strategy of China towards globalization, according to Staniszkis (2007), relies on building complex groups of control instruments on many levels that are intended for different - even contradicting - standards of rationale and "logic". It is to enable adaptation to the changing logic of social and economic processes in time to come (or after the change of reference plain, scale and scope of action). Selective reference to particular aspects (instruments) of this group, extended meta-regulation (principles regulation) and using the wu wei principle (not disturbing a spontaneous course of issues by imposing artificiality) are to become as close as much as possible during the search for problems in situations – and action - to natural structure and process dynamics. The co-optation for current condition will be based not only on economic potential but also on intellectual potential. Among others, the cultural resources are in favour of innovations and on the value of human capital. According to Staniszkis, as predicted by Fang Ning, Vice-Director of the Institute of Political Science at Chinese Academy of Social Sciences, it is claimed that only thanks to the development of unique researches and the fact that China is going to become indispensable as a major potential ally of the USA, China is not only avoiding war but is also speedily entering the centre of the world system. The Chinese will become an indispensable element of crisis management centre (Staniszkis, 2003, p. 161 and 179). The Asian identity (as in thinking strategy) currently conquers the world. Approach towards knowledge production, syncretism in the light of idea (with acknowledgment that every one of them is dedicated to a different process aspect – which is deceptively similar to the network effect), a twilight connected with the above categories of "diversity" and "boarder", and finally valuing the role of time (a proper sequence) are becoming bases of new control (Staniszkis, 2007).

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It is concluded from the analysis of literature on the management of a modern organization, a way to achieve the long term competitive advantage in the economy based on knowledge, is by creating suitable conditions inside a company and its vicinity. A picture that emerges on this base and on the organization of competition in "times of generalized uncertainty", first of all consists of innovation and openness to cooperation. Consequently the innovation depends on:

- gaining talented people,
- suitable conditions for innovation development and "innovation climate" in the whole organization,
- confidence in co-workers, managers,
- democratic, open to changes and diversity managing style.

A modern company is an organization that:

- quickly reacts to market signals i.e. is "vigilant",
- has ability to improvise, survive during tough times,
- is cooperative; looks for cooperation not competition at all costs, creates and maintains relations with environment,
- establishes numerous agreements with suppliers, customers,
- establishes alliances and consortia with competitors which enables contribution to its own values by clients and co-operators,
- gains and uses the knowledge of science institutions, from partners,
- builds solid relations with the environment that are based on confidence.

Especially in the international dimension, the openness to custom attitudes, diversity and trust (social capital) become more and more significant.

If we take into consideration described organizations' characteristics which may provide an effective functioning in present times of uncertainty, there might reveal that Asian (especially Chinese) companies are accustomed to continuous "turbulences", changes, they are forced to be focused, flexile and develop dynamically, and at present they deal better with situations in the global economy.

The increasing influences of Asian countries and eastern values on the fate of global economy, may be reflected in future, in standards and solutions of managing organizations.

The question lies whether the current financial crisis only reflects the momentary problems of the former world economic power or whether it means the beginning of the end

of the single American model of capitalism, gains a special meaning in the context of the presented phenomena.

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