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## **Redefinition of the Role of Asia-Pacific Region in the Global Economy**

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## **THE COMPETITIVE ADVANTAGE OF CHINESE COMPANIES ON THE EUROPEAN MARKET, AND METHODS OF BUILDING THEIR MARKET POSITION**

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**Abstract:** In the realities of today's global economy, competitiveness has become one of the most important determinants and perspectives of assessment of the enterprise functioning on the market, and is also seen as a determinant of development. Competition between companies is an inherent feature of a market economy. From the practical point of view it is important to recognize and understand the sources of the competitiveness of a company, as well as conditions and factors that have an impact on this phenomenon. The purpose of this article is to explore the essence of the phenomenon of enterprises competitiveness and the sources and ways of building their competitive advantage. Attention will also be drawn to strategies of shaping a competitive advantage by companies, with a focus on enterprises with Chinese capital, operating on the European market.

**Keywords:** competitiveness, competitive advantage, determinants of competitiveness of enterprises.

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### **1. Introduction**

Issues concerning the determinants of competitiveness of enterprises are an important and multifaceted area of research inquiry in management sciences. The complex organizational situations require a comprehensive diagnosis of organizational problems and accumulation of knowledge in the field of management. Therefore, the strength of these studies lies in diversity.

In the realities of today's global economy, competitiveness is becoming one of the most important determinants and perspectives of assessment of the enterprise functioning on the market, and is also seen as a determinant of development. Competition between companies is an inherent feature of a market economy. Depending on the industry or sector it can take place on many levels and manifest

itself in a variety of methods and forms of action, as well as have varied intensity. From the practical point of view it is important to recognize and understand the sources of the competitiveness of a company, as well as conditions and factors that have an impact on this phenomenon. Presented research problem requires a comprehensive approach, including aspects and characteristics of the business, as well as the impact of changes and transformations taking place in the environment.<sup>1</sup>

The paper addresses the nature of the competitiveness phenomenon, as well as sources and methods of building the competitive advantage in companies. The author focuses also on the strategies employed in the process of building the competitive advantage, based on the analysis of companies with Chinese capital, operating on the European market.

## 2. Foundations of national competitiveness

*The Global Competitiveness Report* defines competitiveness as the set of institutions, policies, and factors that determine the level of productivity of a country. The level of productivity sets the level of prosperity that can be reached by an economy, and determines the rates of return obtained by investments in an economy, which in turn are the fundamental drivers of its growth rates. As such, it directly influences the level of prosperity attainable by the economy under evaluation. In other words, a more competitive economy is the one that is likely to grow faster over time. However, the very concept of competitiveness involves the evaluation of both static and dynamic components. Although the productivity of a country determines its ability to sustain a high level of income, it is also one of the central determinants of its returns on investment. At the same time, it must be noted that productivity is one of the key factors explaining an economy's growth potential.

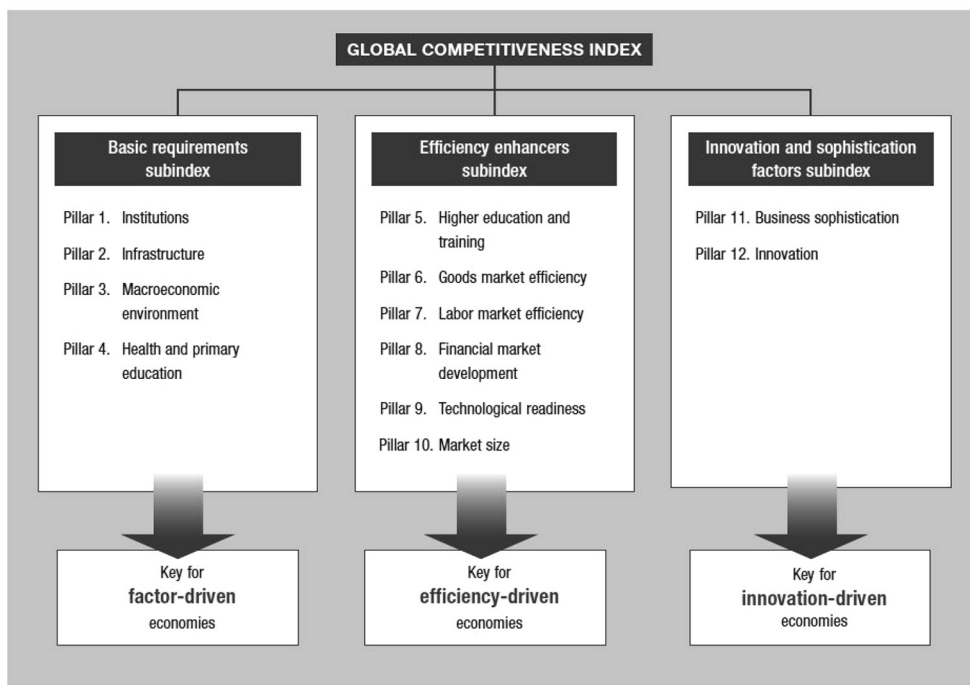
Both productivity and competitiveness can be influenced by many factors. The scientific evaluation of these determinants has come a long way, from the early focus on specialization and the division of labour, through investment in physical capital and infrastructure, to the more recent interest in such aspects as: education and training, technological progress and its role in modern economy, macroeconomic stability, market efficiency, good governance, firm sophistication, and ways to improve company recognition. While all the above factors are likely to be important for competitiveness and growth, they are not mutually exclusive. The central idea behind the success of this approach is the notion that competitiveness and growth are stimulated by the skilful combination of various determinants, each addressing a particular aspect of competitiveness. *The Global Competitiveness Report* employs this approach by including a weighted average of many different components, grouped into 12 pillars of competitiveness: institutions, infrastructure, macroeconomic environment, health and primary education, higher education

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<sup>1</sup> <http://www.e-mentor.edu.pl/artykul/index/numer/37/id/784> (retrieved: 20.05.2014).



and training, goods market efficiency, labour market efficiency, financial market development, technological readiness, market size, business sophistication, and innovation.

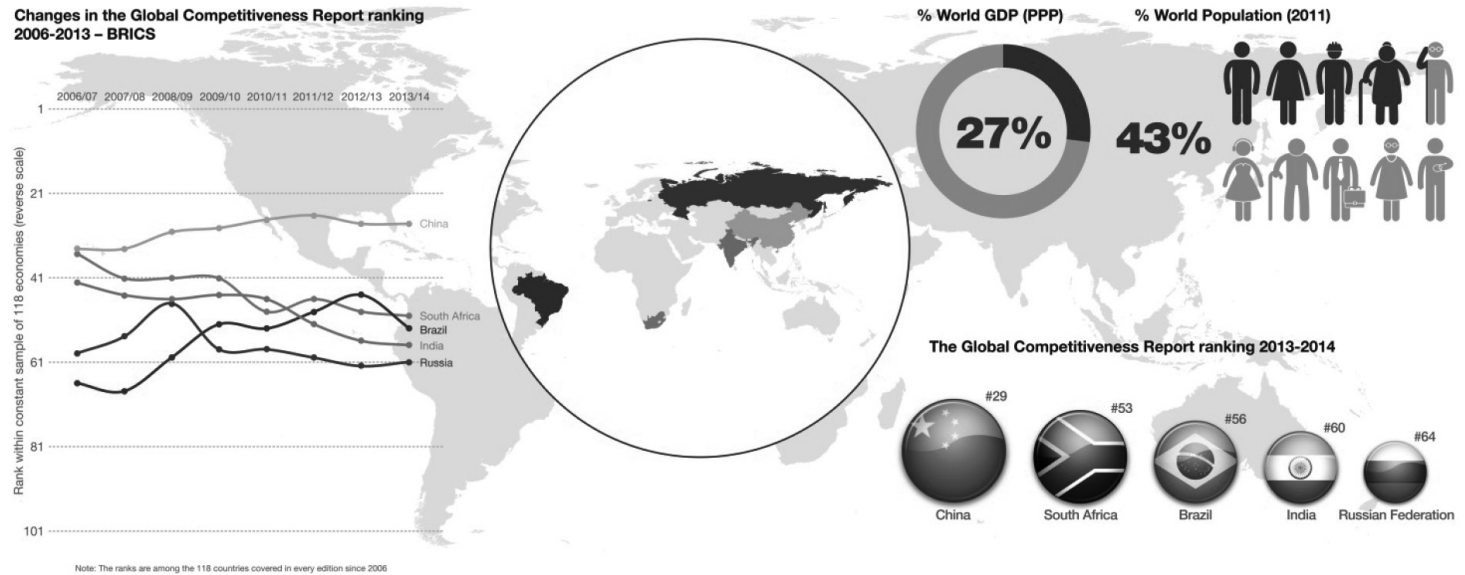


**Figure 1.** The global competitiveness index framework

Source: *The Global Competitiveness Report 2013–2014*, World Economic Forum, Geneva 2013, <http://www.weforum.org/reports/global-competitiveness-report-2013-2014> (retrieved: 21.05.2014).

Although the results of development in the above areas are reported separately, the authors strongly emphasize the correlation between them, since the individual pillars of competitiveness tend to reinforce or otherwise affect one another. For instance, the factors of innovation (pillar 12) would be very difficult to achieve without a healthy, well-educated and trained workforce (pillars 4 and 5) that is adept at absorbing new technologies (pillar 9), and without sufficient financing (pillar 8) for R&D or an efficient goods market that makes it possible to take innovations to market (pillar 6). It is, therefore, important to focus on the proper and successful development of those individual areas, since disregard or neglect in a certain area may negatively affect the effectiveness of other determinants.<sup>2</sup>

<sup>2</sup> The Global Competitiveness...; M. Grzebyk, Z. Kryński, *Konkurencja i konkurencyjność przedsiębiorstw. Ujęcie teoretyczne*, Zeszyty Naukowe Uniwersytetu Rzeszowskiego nr 20, Rzeszów 2011, pp. 107–118.



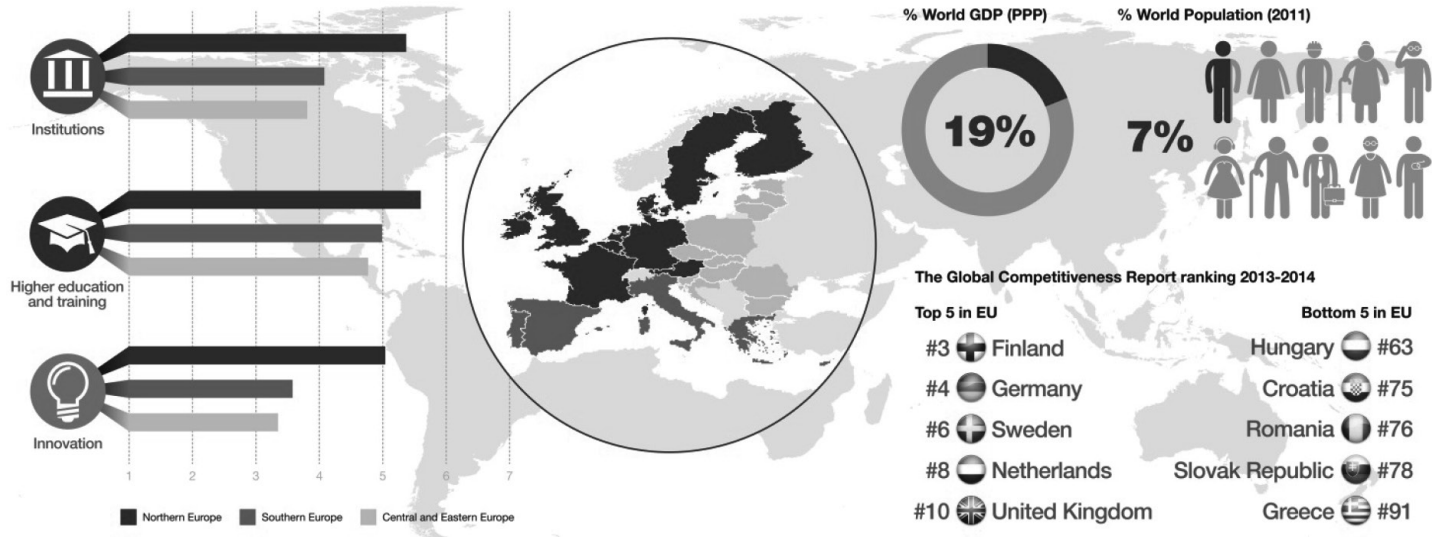
**Figure 2.** Changes in the competitiveness rankings of BRICS countries, in the years 2006–2013

Source: *The Global Competitiveness...; World Economic Outlook (WEO): Hopes, Realities, and Risks, April 2013*, International Monetary Fund, <http://www.imf.org/external/pubs/ft/weo/2013/01/> (retrieved: 21.05.2014).

Despite the reported high growth in the BRICS countries over the last decade, their competitiveness has remained at a stall since 2006 – that is, roughly since the introduction of the Global Competitiveness Index (in 2005) as the modern instrument of choice for the evaluation of national competitiveness ratings. This may raise considerable doubts as to the capacity to sustain the continued long-term growth and development of the BRICS countries. With regard to the EU Member States, the competitiveness of the EU area as a whole has been stimulated by three main components: the institutional support, the extensive skill base, and the high innovation.

The dynamic transformation of China into a global production centre has brought billions of dollars in foreign direct investments, and a drastic reduction of poverty rates in the country. In 2000, China's GDP was registered at a mere one-fourth of Japan's, and a tenth of the US GDP. In 2010, China was already the second largest economy of the world. The Standard Chartered Bank report of November 2010 forecasts that – by the year 2020 – China will rise as the leading economic power of the world, surpassing the US by a safe margin.

Based on this year's edition of *The Global Competitiveness Report*, China ranks 29<sup>th</sup> in the ranking of the most competitive countries of the world. It must be noted, however, that – despite spectacular development and improvements in some areas – China recorded equally spectacular losses in some of the other categories under evaluation, which may explain why the rating remained unchanged, compared with the 2012/2013 report. China's advantage over the other BRICS countries is uncontested. Nonetheless, despite China's steady improvements in the institutional framework, the country has yet to address some of the major economic problems, such as the elevated corruption rates, security issues, low responsibility and the ubiquitous lack of ethical standards in Chinese companies. Failings in these areas contribute to the deterioration of the economy, greatly affecting the country rating on the competitiveness scale. Moreover, the country's economic problems are often concentrated in the most important areas. The increase in wealth and prosperity has the effect of greatly reducing the supply (and the profitability) of cheap labour in many production segments. The absorption of new technologies remains drastically low – both on the individual and the company dimension, while the goods market efficiency is greatly challenged by numerous barriers to market entry and by the restrictive investment regulations that limit the market competition. Despite the above problems, the macro-economic situation of China is still fairly favourable, as attested by the drop of China's inflation rate from 5.4 to well below the 3% mark, the moderate budget deficit, the extremely low public debt to GDP ratio (22.9%, one of the lowest in the world), and the gross savings ratio (estimated at as much as 50% of the GDP). However, some of those indices may, in fact, be quite elevated, particularly in the context of China's need to balance the national economy. For that, China should reduce the investment ratio, and stimulate consumption. Despite the relatively high rating in health care and basic education (#40), the high education



**Figure 3.** Global competitiveness of the European Union countries

Source: *The Global Competitiveness...; World Economic...*

rating remains low. Due to the mediocre quality of university education and the striking disproportion between the education content and the requirements of modern business, China places as low as #70 in this segment. China's potential for innovation, despite significant improvements, still requires a lot of concerted effort to make it a viable source of economic advantage.

Over the last year, most of the EU member states were still affected by financial and structural problems. For this reason, the EU has introduced a number of long-term strategies to avoid the collapse of the euro zone and to bring the region on the path of dynamic growth. These objectives were addressed mostly by macro-economic instruments and – to some degree – by structural reforms, particularly with respect to the peripheral countries of the euro zone. Although the competitiveness-boosting strategies proved effective, the relatively low global and regional demand is still an important factor, affecting the overall development of the area. Some of the largest EU states should restructure their economies to help the EU area regain its status of a growth engine. Despite these challenges, several EU member states have managed to keep their strong economic and competitiveness rankings. As many as six EU economies are ranked in the top ten of the most competitive economies of the world: Switzerland (#1), Finland (#3), Germany (#4), Sweden (#6), the Netherlands (#8), and Great Britain (#10) (Figure 3).<sup>3</sup>

### 3. Sources and methods for building company competitiveness

Competitive advantage can be defined as an advantage over rivals, resulting from the supply of more value at lower prices, or from supply of additional benefits and services to customers relative to those offered by the competing entities. In other words, it is closely related to a strategy, product or service that gives the company a clear advantage over other market participants. Having a competitive advantage over other entities is a key factor to improve the company's productivity, a source of additional profits, and a confirmation of the company's cohesive and effective long-term strategy of growth. This is why most companies strive to build their lasting competitive advantage on the market and to defend their position.<sup>4</sup> The lasting competitive advantage is a source of additional value, both for the company and for the consumer. According to Porter, the actual value created by a company is represented by the price that the customers are willing to pay for their product or service. The author also emphasizes the significance of the value chain, as a source of additional value for the customer. Companies willing to gain a competitive advantage should put a relatively equal focus on such activities as production, product

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<sup>3</sup> *The Global Competitiveness...*

<sup>4</sup> C. Ehmke, *Strategies for Competitive Advantage*, University of Wyoming, Western Center for Risk Management Education, <http://cals.arizona.edu/arec/wemc/nichemarkets/05competitiveadvantage.pdf> (retrieved: 15.05.2014).

circulation, supply and post-sale servicing on the one hand, and on the other – on services provided by their HR, IT, and other departments.<sup>5</sup>

There are many sources of competitiveness. Each of them – with proper strategic approach – can be used effectively to build a lasting competitive advantage in business. Table 1 presents eight major groups of such sources, namely: production, distribution, marketing, technology, market position, management quality, knowledge and information, and time management. It should be noted here that the competitiveness of a national economy is a sum of competitive advantages of companies operating on domestic and international markets.

**Table 1.** Sources of competitiveness, by group

Group	Description
Production	Cost leadership or/and better quality. Cost advantage may result from external factors (related to the company's market position) or internal determinants (resource allocation).
Distribution	Lower cost of capital freeze and transportation cost freeze, improved customer service.
Marketing	Better identification of market needs and, in effect, better adjustment of products and distribution to meet those needs.
Technology and innovation	Leadership through: research and development, technological innovations, product innovations.
Market position: trademarks, patents, product reputation	Customer loyalty to the company trademark, product uniqueness (patents). Company uniqueness – competitiveness through mini-monopoly (obtained, for example, by effective differentiation).
Quality of management	Management competences, talents, etc.
Knowledge and information	The increased role of knowledge in such areas as: production, product, IT systems, purchasers, etc.
Time management	Fast response to market changes, operation defined in long-term perspective.

Source: own research, based on: W. Szymański (ed.), *Przedsiębiorstwo, rynek, konkurencja*, SGH, Warszawa 1995, p. 156.

<sup>5</sup> <http://html.rincondelvago.com/sources-of-competitive-advantage-for-an-enterprise.html> (retrieved: 15.05.2014); M.E. Porter, *Competitive Advantage. Creating and Sustaining Superior Performance*, The Free Press, New York 1998.

Investing in research and development may be seen as one of the main sources of lasting competitive advantage, since it directly relates to the development of new products and innovations. For this approach to be effective, it must be supported by a suitable organizational culture – one that is open to effective adaptation of new technologies, knowledge-sharing, and active cooperation of partnering units. This offers a sizeable reduction of cost and time, improved productivity, better communication, and reduction of errors and delays, thus improving the final result and contributing to customer satisfaction.

While creating innovations, companies should make an effort to protect their intellectual rights, copyrights and patents, as well as the company trademark and trade names. With trading companies, it may be valuable to secure exclusive distribution rights, thus increasing the competitive advantage over other local suppliers.

Another important source of innovation and competitiveness is the ability to identify and promptly respond to customer needs and expectations, as well as emphasizing the loyalty factor in customer relations. In this context, one of the most significant determinants is the effective management of databases, which helps the company adjust their offer to customer expectations. It also plays an important role in building the image of a customer-friendly company, gaining advantage over the competitors. This process, however, is very complex and requires great flexibility, to help the company introduce prompt and effective adjustments in response to new market challenges. For this, it may be necessary to employ expert help of market analysts, equipped to identify and properly interpret the market trends and, based on the results of the analysis, formulate forecasts of future market behaviours. Therefore, this path requires significant investment in human capital, skilled workforce and suitable work conditions, since proper motivation of employees increases their satisfaction and commitment, particularly with respect to effective solving of customer problems, thus increasing the company's market value and strengthening its market position.

In the light of the above, it may be concluded that the process of building and strengthening of a company's competitive advantage requires a skilled team of employees, both operational and managerial. The strategic intelligence of managerial cadres offers not only proper identification, but – most of all – anticipation of market and sector trends, an important determinant of competitive advantage.

In the highly competitive environment, one of the most important methods of building company advantage is the use of cost-effective solutions at various stages of the production process. These include the just-in-time system and the assorted outsourcing strategies, designed to transfer some of the company functions to external providers specializing in a given field of services. This offers sizeable reduction of production cost, as well as improved quality, customer satisfaction, and optimization of financial results.

Another substantial path to building the company competitive advantage is a strong and effective marketing strategy. Markets strongly favour companies with

good marketing strategies, as attested by the enormous annual expenditures for market research and advertisement campaigns. The key aspect here is the strategic integration of marketing activities with the company's production strategy, to better meet the needs of the customer base. Proper integration of marketing and production may facilitate the process of building a strong, trust-based relation with customers, so that the products and services on offer would not be sought outside the company that offers them.

In this context, it may also be useful to emphasize the role of governmental regulations – another important source of lasting company advantage. Some companies have managed to build their competitive advantage by exploiting (or taking advantage of) the barriers to entry to a given sector. The oil sector – and mining industry in general – is a good example of a sector with entry regulated by governmental permits. Monopolistic position can be seen as another example of an untypical competitive advantage built on strong relations between the company and the government.<sup>6</sup>

To sum up, there are many potential sources of competitive advantage available to companies. The advantage is of fundamental significance for company operation, since without it, the company cannot compete with other entities. And without sound competition, the company has no chance of survival on the market.

#### **4. Building the competitive advantage in companies with Chinese capital**

Up to the recent times, the competitiveness of Chinese enterprises was predominantly based on the production of work-intensive goods with low added value. At present, the advantage of Chinese companies is not limited to those traditional segments and areas. Modern China is very effective in the absorption of new, foreign technologies. Consequently, the country has become a strong contender to companies from more developed countries. In addition, the Chinese government places a strong emphasis on better utilization of the country's innovative potential, as reflected in the realization of objectives set down in the 12<sup>th</sup> five-year plan for 2011–2015. The plan focuses on the need to promote domestic innovation and on concerted reform and modernization activities.<sup>7</sup>

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<sup>6</sup> M.E. Porter, *The Competitive Advantage of Nations, States and Regions*, 2011, [http://www.hbs.edu/faculty/Pages/download.aspx?name=2011-0707\\_Malaysia\\_vcon.pdf](http://www.hbs.edu/faculty/Pages/download.aspx?name=2011-0707_Malaysia_vcon.pdf) (retrieved: 15.05.2014); M.E. Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors*, The Free Press, New York 1998.

<sup>7</sup> *China's Competitiveness. Myth, Reality, and Lessons for the United States and Japan*, A report of the CSIS Hills Program on Governance, 2015, <http://csis.org/program/chinas-competitiveness> (retrieved: 16.05.2014); <http://www.partnerscreatingwealth.com/14-sources-of-competitive-advantage/> (retrieved: 16.05.2014).



In accordance with the dominant viewpoint, the most important sources of competitive advantage for Chinese companies are: the cost of labour, interest rates, the yuan exchange rate and the benefits of scale. However, companies are in need of a new approach to competitiveness, and of modern instruments to that effect. This requires a redefined interpretation of the competitive approach, one which is based on careful analysis of the competing companies, sectors and countries. The leading global enterprises adopt assorted strategies, seemingly varied but – in fact – similar in their character and trajectory of activities. Companies build their competitive advantage on innovation, in the broadest sense of the term. This includes new technologies and new methods of operation, which in effect form a new basis for competition. For instance, innovations may take the form of new product designs, new production technologies, new marketing approaches, or new training methods. Oftentimes, companies revisit their previous ideas, which – for some reason – had been put on hold. However, regardless of the form, innovations will always require extra investment in knowledge and skills, as well as development of company reputation and available resources. Some innovations offer competitive advantage though exploiting new market potentials or through exploiting some of the more neglected market segments. But it must be noted that the advantage based on innovation can only be maintained through further, unceasing improvement.

More and more Chinese companies find themselves facing the rising challenges of internationalization and globalization. Understanding of the dynamics of the fluctuating global market requires proper identification of market trends and apt realization of strategies, in accordance with the identified trends. The adoption of universal and global patterns of company operation and the quality of the supplied goods may bring them increased recognition and acceptance on global markets, as well as improve their market share and sales figures. This will obviously increase their profit margins and improve their reputation. Only those companies which are able to accurately forecast market behaviours and utilize the potential for development can aspire to raise their competitive advantage over others. The focus on effective use of information may be an important source of competitiveness for Chinese companies, by generating increased value. Reluctance to change would result in the increased risk of distrust on the part of their customers, particularly with respect to their financial and operational reliability. Competing solely on prices is not a viable long-term strategy, and – as such – cannot be regarded an effective path to a lasting competitive advantage. Both the financial support and the market share are closely related to the level of trust gained with customers, and to the effective realization of the company strategy, in line with globally adopted standards. With steady expansion to new markets and the strong focus on gaining a competitive advantage on global markets, Chinese companies must put an equal emphasis on some of the immaterial factors and values, such as company reputation, building the trust in the trademark, improving the credibility, focusing on incessant innovation, proper implementation of the company strategy, effective communication, investing in human capital as

well as development and proper utilization of knowledge resources. Only those values may help the Chinese enterprises gain and strengthen their competitive power and the resulting advantage on the global market.

**Table 2.** The top 20 of the most competitive Chinese companies, in the year 2011

Rank	Company
1	Alibaba.com Corporation
2	Baosteel Group Corporation
3	Changsha Zoomlion
4	China Huaneng Group
5	China International Marine Containers (Group) Ltd.
6	China Minmetals Corporation
7	China National Aviation Holding Company
8	China National Chemical Corporation
9	China National Offshore Oil Corporation
10	China Petrochemical Corporation
11	Fosun Group
12	Geely Holding Group
13	Haier Co., Ltd.
14	Huawei Technologies Co., Ltd.
15	LDK Solar Co., Ltd
16	Lenovo Corporation
17	Midea
18	Neusoft
19	Tencent Holdings Ltd.
20	ZTE Corporation

Source: <http://www.roland-berger-award.cn/> (retrieved:12.04.2014).

The Roland Berger Strategy Consultants and Global Entrepreneur Magazine provide an annual review of top 20 of the most competitive Chinese companies. The ranking selection process examines both the quantitative and the qualitative criteria, and the final ranking incorporates a comprehensive financial analysis and expert opinions. Such an approach allows for an accurate depiction of real competitive levels in Chinese companies. For several years in a row, the ranking of most competitive Chinese enterprises features such enterprises as: Lenovo Group (the largest global producer of computer equipment), Baosteel Group Corporation (the second largest

global steel producer), Huawei Technologies (the second largest telecommunication and IT producer), Haier Group (with the largest share in global supply of home appliances in 2013 – 11,6%), and Geely Holding Group (automotive producer and – since 2010 – the owner of Volvo Company).<sup>8</sup>

The above ranking shows that the most competitive companies and corporations are those which build their competitive advantage through investment in new technologies, innovation, and taking up new challenges in the most strategic sectors of economy.

## 5. Conclusions

The competitive advantage of a nation is closely related to its industrial capacity to create innovation, change and modernization, in accordance with the ever-changing requirements of the market. Companies build their competitive advantage through incessant pressure and rising challenges, which both form a growth engine, stimulating further development and expansion. Strong domestic competition, aggressive supply strategies and demanding customer base forces companies to continuously improve their productivity and improve their market position. There are many differences between the nations in terms of the adopted models of competitiveness, but it must be remembered that some of those subtle differences – national values, culture, economic structure, institutions, and history – can also provide effective paths to competitive advantage of companies. The strategies adopted by companies with Chinese capital are a good example of building the competitive advantage through proper utilization of the potential inherent in national culture and through meeting the challenges raised by new trends in modern global economy.

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## KONKURENCYJNOŚĆ FIRM Z KAPITAŁEM CHIŃSKIM NA RYNKU EUROPEJSKIM I SPOSOBY JEJ KSZTAŁTOWANIA

**Streszczenie:** W gospodarce globalnej rośnie znaczenie zjawiska konkurencyjności. Staje się ono zarówno jednym z najważniejszych czynników oceny przedsiębiorstw i ich działalności na rynku, jak i silnym wyznacznikiem rozwoju firm. W celu zrozumienia istoty zjawiska konkurencyjności danego przedsiębiorstwa niezbędne jest rozpoznanie i zrozumienie jej źródeł, a także warunków i czynników, które mają wpływ na to zjawisko. Celem artykułu jest zgłębienie istoty zjawiska konkurencyjności przedsiębiorstw oraz źródeł i sposobów budowania przez nie przewagi konkurencyjnej. Uwaga będzie również skupiona na strategiach kształtowania przewagi konkurencyjnej przez przedsiębiorstwa, z koncentracją na przedsiębiorstwach z kapitałem chińskim, funkcjonujących na rynku europejskim.

**Słowa kluczowe:** konkurencyjność, przewaga konkurencyjna, źródła przewagi konkurencyjnej przedsiębiorstw.