

Competitive Advantage and Organizational Dynamics: The Rise of Automobile Makers in Asia, 1990s-2000s

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1. The needed dynamic adaption in emerging markets

In this paper, firstly a general view is given to the rapid growth of China's car market in 2000s. Furthermore, basing on the above analysis, we focus on how Chery Automobile become one of the country's most successful independent Chinese automobile manufacturers (ICAMs)¹ by adapting to those changes in the business environment.

Thence the argument will be made that, the true dynamic adaption, in the emerging markets, is seen not through the reinforcement of existent original structures, but rather through 'organizational dynamics,' where bold alterations are made in line with market growth.

2. Structural changes within the Chinese passenger car market

During the 1990s, the Chinese government chose eight companies to support and provide development assistance to. These were labeled the "Three Big" (First Automobile Works - FAW, Dongfeng Motor Corporation - DMC, and Shanghai Automotive Industry Corporation - SAIC), the "Three Small" (Beijing Automotive Industry, Tianjin Automotive Industry, and Guangzhou Automotive Industry) and the "Two Light" (Chang'an Suzuki and Guizhou Yunque-Subaru). Each was prescribed the role of manufacturing a particular type of car: either luxury, mid-range, or compact. Due to this controlled structure hardly any competition existed across these pre-formed market segments and this, in turn, led to the development of a compartmentalized market structure where automobile makers would focus their strengths on a particular area, forming joint-ventures and importing products around these needs.

The analysis also suggests that even as domestic brands continue to focus on low-priced car segment, the central point of the market is gradually shifting up towards higher-level segments. In response to the breakup of the segmented market and other changes following, domestic brands, ICAMs, have come to focus on creating organizational structures and product lineups designed specifically to hold up against the influx of competition from foreign brands..

3. The Process of Structural Reform – A Case Study of Chery Automobile

As noted previously, the 2000s saw China's automotive industry undergo impressive growth, closely matching the overall growth of China's economy. Chery Automobile has been one of the most successful of the ICAMs caught in these changes. Despite its establishment in Anhui Province as a newcomer in 1997, Chery Automobile already holds the largest market share among all ICAMs in China. By examining the reasons for Chery Automobile's success, it is possible to gain insight into the strategies necessary for effectively competing in emerging markets characterized by dynamical changes of business environment.

When Chery first entered the market it manufactured the 'Fuwin A11' under the sale strategy with single brand. The 'Fuwin A11' model was based on the first generation of the 'Toledo', and was licensed for production from Seat in Spain. At its founding period, Chery had only eight engineers, and at that stage no one had considered the idea of designing new cars to bring to market by In-house R&D. Yet it was not long before Chery began to consider expanding the business to market by multiple car models strategy. In 2001, Chery began to work with an independent car design and engineering company named Kaking Technology²,

¹ In this argument, 'the independent Chinese automobile manufacturer' is defined as a Chinese company that has developed its own indigenous brand, and all the technologies necessary for new product introduction were not introduced through a form of joint venture with foreign companies.

² Kaking Technology's full name is - "Wuhu Kaking Technology Ltd." The company creates full car designs, and its core members are an engineering team that originally worked at the Dongfeng Motors Technology Center. As part of a joint-

became a subsidiary of Chery later. In 2003, it added the 'Estar', the 'QQ', and the 'Cowin' - a sister car to the 'Fuwin A11' - to its lineup, each reverse engineered by Kaiming using templates from cars in developed countries.

The above highlights the structural reform in R&D and Sales at Chery Automobile during the period between 2000 and 2010. It can be argued that the company's continued efforts to improve R&D expertise while striving to build sales channels and branch into other brands were skilled responses to the concurrent period of rapid expansion and change within China's economy. It is, of course, possible that chance and luck played a part, yet it remains clear that an organization must strive to develop and grow when working inside a market experiencing continual growth.

4. Conditions for Dynamic Adaptation: Is Quick and Appropriate Corrective Change Possible?

We have studied the case of Chery Automobile to illustrate how an organization needs to be able to adapt and reorganize itself dynamically during periods of environmental transformation. Yet there are factors that contribute to such dynamic adaptation - namely the continual appearance of problem areas that create discord between the company and the market, and the correct application of corrective change. In the case of Chery Automobile, such issues appeared as conflicts between the increased lineup of products and sales channels, or mismatches vis-a-vis market needs that led to lowered sales. In each case Chery responded quickly, making bold changes to the problem areas (e.g. sales structures) that allowed for the company to grow, and keep pace with China's burgeoning market.

ICAMs such as Chery Automobile, in comparison, experience high levels of staff movement through engineering, and find it difficult to accumulate the necessary expertise or even secure the requisite number of personnel. Until such organizational problems are solved, it remains difficult to predict continued stability in the growth of ICAMs.

Conclusion

There is a classic work of research that deals with the process of growth in companies - Penrose (1959). Penrose argued that the principal motivational force behind a company's growth is the accumulation of resources within that company, and that growth is realized through the use of these resources in order to create productive opportunities inside an external, changing environment. The most important point to note here is the phrase, 'create productive opportunities'. Penrose argued that companies needed to avoid adopting a passive stance towards external change, noting instead that they needed to be active and 'entrepreneurship' in implementing their skills to find productive opportunities from changing environments.

Chery's success was, perhaps, due in part to good fortune, but it was not wholly a chance product engendered by changes in the market environment. It was, instead, Chery's continuing efforts in searching for active solutions to resolve the issues between organizational imbalances and environmental unadaptation that contributed to the creation of a process of dynamic adaptation.

This paper also touched on issues that Chery Automobile continues to face. It can be argued that if Chery continues to maintain its entrepreneurship and continues to actively search for solutions, then it will likely be successful in doing so. The most important factor behind the process of dynamic adaptation is a company's will to reform itself and its maintaining a sense of entrepreneurship.

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