ADVANTAGE: HOW THEY WORK IN SELECTED ASIAN ECONOMIES

INTRODUCTION

Asia comprises a population of more than four billion people, accounting for approximately sixty percent of the world's population in over forty-five different nations (UNITED NATIONS, ECONOMIC AND SOCIAL COMMISSION FOR ASIA AND THE PACIFIC, 2020). The continent also represents one of the fastest-growing economic regions and the largest producer of nominal gross domestic product (GDP). Of the many countries contributing to Asia's growth, China and India are considered among the fastest-growing economies in the world (PAUL and MAS, 2016). Japan's rise as the third-largest economy in the world was partly due to its strong entrepreneurial community, which fostered the country's remarkable economic growth (PAUL and SHRIVASTAVA, 2016). Additionally, other major economies such as South Korea, Indonesia, and Turkey have achieved remarkable growth in terms of GDP over the last twenty years. While there is a little similarity among many Asian countries' leadership on governance practices and structures, it is obvious that they intend to be at the forefront of technology and international trade.

Over the past two decades, the aforementioned nations have collectively played an increasingly important role in the global economy and are no longer solely "recipients" of international economic activity but are now active participants in worldwide commerce. High-value trade and foreign direct investment (FDI) in both goods and services are no longer principally between nations of the "West" but are now increasingly global. As multinationals continue to trade with and invest in Asia, and as they gain access to materials and lower-cost factors of production, they are also tapping into Asia's large customer bases and increasing spending power. The European Union's (EU) trade volume with Asia has grown to $1.5 trillion of annual merchandise trade in 2019, surpassing each continent's trade with the United States (WORLD ECONOMIC FORUM, 2019). Given this growth, multinational firms must craft and execute strategies to survive, increase profitability and strengthen market share. Moreover, firms are faced with a competitive and dynamic business environment because of technological development and therefore must create a competitive advantage by adopting a systematic approach to strategy to successfully adapt to technological and industrial changes. Porter's model and generic strategies are therefore appropriate to explain how firms behave and compete in their respective market (ISLAMI et al., 2020). The concept of "generic strategy" suggests a wide area of usage and opportunity to develop a competitive edge despite the industry, the sort, and size of the organization (Herbert and Deresky 1987). This paper analyses Porter's generic strategies as applied to the business environments of China, Japan, and India. The following presents an overview of Porter's generic strategies, the generic strategies common among firms in Asia, and reviews the business environments of China, India, and Japan, as well as regional collaboration factors to consider in strategy execution.

LITERATURE REVIEW

Regarding the Porter's generic strategies, strategies are the actions which are needed to achieve companies’ objectives and long-term prosperity; correspondingly, strategic implementation involves the commitment of huge financial and human resources. Firms must
work to develop effective competitive strategies to find their industry niche and understand their customers (PORTER, 1987). Porter (1985) identifies three generic businesses strategies: differentiation, cost leadership, and focus. Several studies suggest that some combination of these strategies yield better results and foster competitive advantage (e.g., CROSS, 1999; MILLER, 1992; JOHNSON & SCHOLES, 1993; FUERER & CHAHARBAGHI, 1997; HLAVACKA et al., 2001). Further, the strategy that a firm chooses must match its objectives to achieve competitive advantage (Surowiecki, 1999; Parker and Helms, 1992) and become an industry leader (MURDOCH, 1999; SUUTARI, 1999). These strategies are relevant to all industries in most countries (e.g., BROOKS, 1993; MEDIAN & CHIN, 1995; GREEN et al., 1993; CAMPBELL-HUNT, 2000).

Differentiation strategies focus on providing a unique product or service (BAUER & COLGAN, 2001; HYATT, 2001; PORTER, 1987/1996) and on fostering high customer loyalty (HLAVACKA et al., 2001; CROSS, 1999). Differentiation enables firms to offer unique products and services and charge a premium price to gain market share. In this context, providing high product quality, features, or after-sale support is important. Managers can improve differentiation by adapting a firm’s mission to customers’ needs, thus, to create unique or superior value to customers, and gaining a competitive edge. According to Porter (1996), differentiation strategy fosters mark trust, quality, and customer perception of the company product and performance. By comparison, cost leadership focuses on achieving competitive advantage by having the lowest cost in the industry (e.g., PORTER, 1996; BAUER & COLGAN, 2001; DAVIDSON, 2001) and calls for low-cost manufacturing and employee commitment to the strategy (MALBURG, 2000), since firms need a large market share to effectively pursue cost leadership strategy (HYATT, 2001). Thus, the low-cost strategy focuses on achieving a competitive edge by offering standardized products at a low cost better than what the competition is offering. Finally, focus strategy allows a firm to concentrate on serving a specific regional market, product line, or group of buyers (PORTER, 1996). For instance, the tendency of some Asian companies focuses solely on African markets. The goal is to leverage the unattractive market or market ignored by larger competitors. Focus strategy allows firms to integrate different activities that are linked to differentiation and low cost in a niche market to make higher profits.

A firm may choose to combine the above-mentioned generic strategies. For example, an organization can pursue a focused differentiation strategy or focused low-cost leadership. A firm pursuing a focused differentiation strategy will offer a unique product to a targeted niche market or segment. Conversely, a firm pursuing focused cost-leadership strategy will provide low-cost products and services to a targeted market segment. Extant literature has shown that focused cost leadership hybrid strategy (ARYRES & MCGAHA, 2002; KUMAR et al., 1997) and hybrid focused differentiation (SPANOS et al., 2004) yield better business results.

**FINDINGS AND DISCUSSIONS**

**Findings**

In terms of generic Strategies in Asian Firms, companies operating in Asia prefer a differentiation strategy because the abundance of labor and other factors make cost advantage strategies tougher to execute. Cheap cost of labor and availability of materials makes it difficult for firms to compete based on low cost. Inexpensive labor and material are assessable to all the firms and thus, it is not a source of competitive edge. However, possessing superior intellectual property or a unique product feature is what makes the difference. These advantages can be consistently associated with extensive research and development, which most established organizations have, making the Asian market trickier for small-scale enterprises. A pivotal point of consideration is the reproducibility of the strategy, in most instances, keeping intellectual property or trade secrets confidential. However, the potential benefits from the Asian market typically outweigh such risks a business may encounter (BUCKLEY & GHAURI, 2015; CLEVERLY, GLOWACKI JR & CHENG, 2011). An example is Tecno, a Chinese mobile phone manufacturing company that produces cheap smartphones, tablets, and accessories for the African market; like other Asian Multinational Enterprises (MNEs), Tecno is pursuing a focused cost leadership strategy.
China, a global business hub, represents 20 percent of the world's population, most of them educated (the literacy rate is 97 percent, compared to 74 percent in India) (WORLD BANK, 2020). In 2012, the Chinese government introduced incentives such as tax reduction for foreign investors in the technology sector and various industries.

Also, it established economic zones, and simplified business procedures and the ease of doing business (MOTOHASHI, 2015), increasing its already large market size for logistics, education, e-commerce, healthcare, and many more industries in mostly the service sector. At odds with this growth, however, China is also challenged by foreign exchange restrictions, highly restrictive anti-trust laws, and other structural issues; firms must address these obstacles in their strategy development and execution. For most of its companies, China is a true test of how resilient a business' operations are (CARPENTER & DUNUNG, 2011). Chinese society is heavily influenced by the traditional values associated with Confucianism, which promotes a strict system of norms and propriety. These values determine how a person should act within a community, with hierarchy being a central theme. Consequently, there is little separation between business and private life in China. These concepts heavily influence business life in China, and with its expanding influence in the region. It is only expected that these principles will become more widespread (CHUCHOTTAWORN et al., 2012).

In Southwest Asian countries like India, competition is formidable. The markets tend to be flooded with rival inferior products or services, leading to price wars that emphasize quantity over quality. While this phenomenon is limited to some regions over others, it nonetheless forces some companies to unravel market penetration into other regions. These issues are, however gradually being diminished by the spread of technology in the region. The Internet penetration rate in India is significant at 687.7 million, second to China (see Figure 1) allowing companies marketing strategies for a more significant, more accessible customer base. India is considered one of the technology strong nations in the world. Further, low language barriers make India very attractive for businesses (MOTOHASHI, 2015). However, varying language, customs, and many business regulations must be satisfied and make it hard to use a one-size-fits-all approach to growing business operations across all the regions in India (MOTOHASHI, 2015).

Figure 1: Number of internet users in the Asia Pacific Region, as of January 2020 (in millions)

Source: Statista (2021)

Japan is the third-largest economy in the world and contributes almost six percent to global GDP (BAJPAL, 2020). Especially for western high-tech companies, Japan is usually the first and most significant foreign market. Many recent global technology revolutions such as mobile Internet and payments, electronic money, and solid-state lighting began in Japan. Its reputation as an innovation powerhouse might seem daunting to most firms, but the rewards
for breaking through its ninety-nine percent literate population with loyalty to superior products and grander experiences are not easily ignored. Firms with a higher level of market penetration and performance in Japan are characterized by a favorable evaluation of the accessibility of the Japanese distribution system and have strong inter-organizational networks with other Japanese firms. According to Numagami (2009), Japanese companies use mainly the resource-based management theory that focuses on the internal environment. Japanese corporate management also is anchored on a long-term employment system, a network of suppliers and customers technologies, and corporate strategies to support these resources (MOTOHASHI, 2015). An exemplar is the lean management system originated by Kiichiro Toyoda and Taiichi Ohno, which effectively rethinks the boundaries of a firm. This culture for efficiency is prominent today in the Japanese business world; high levels of commitment and investment are needed to thrive in Japan due to its sheer size, as is efficient communication to bridge the cultural divide and to separate the priorities of global customers from their Japanese counterparts (BEBENROTH, 2015).

As for the regional collaboration, around 2010, many countries began to feel marginalized from the world’s dynamic business environment. To remain competitive, even the United States recognized Asia’s importance in various markets and invested accordingly in the region. This interest birthed the “Trans-Pacific Partnership” (TPP), a proposed agreement to collaborate amongst 12 countries which shared 40 percent of the global gross domestic product. The inclusion of Japan was the most significant part of the agreement due to the sheer size of its economy (US$4.7 trillion) (BERNHARDT AND DEWAN, 2012).

Even with the United States withdrawing from the TPP in 2017, the remaining countries proceeded to sign a modified agreement recognizing the value that could be acquired from the Asian region. For example, Canada signed its most significant source of bilateral foreign direct investment (FDI) in Asia with Japan ($29.6 billion) (GOVERNMENT OF CANADA, 2019; SOLÍS & ALY SERGIE, 2013). The creation of international strategic alliances is required for generating sufficient innovation to maintain a competitive advantage. Furthermore, it is needed to navigate an ecosystem that is rapidly evolving. Deciding where, and with whom, to collaborate depends on factors such as identified growth opportunities, technological competence and learning capacity, risk-taking abilities, cost organization, and a firm’s propensity for change (RASHED & NESHA, 2016). Another collaboration such as The Association of Southeast Asian Nations (ASEAN) is a strong promoter of economic, political, and security cooperation among its ten members. This regional collaboration enables member states to achieve synergy and economic progress by playing an essential role in economic integration and free trade (ALBERT & MAIZLAND, 2019).

DISCUSSIONS
Robust strategic management practices are crucial to cope with changes in the business environment and to achieve strategic goals (NWACHUKWU et al., 2018). Nonetheless, empirical studies have shown that most corporate strategies fail during execution (e.g., HAJARA, 2011). Neilson et al. (2008) assert that execution is a notorious and perennial challenge, even for the companies that are best at it. As an organization continues to implement strategy, it encounters many possibilities for failure; unfortunately, in Asia today, there are many failed business models to learn from. Governments probably constitute the most important factor in the equation.

Nonetheless, Asia’s rise over the past decade marked a shift in the balance of economic power and some erosion in the political supremacy of the West, leading to conflicts like the U.S.-China trade war. Firm strategies have to be resilient to such power tussles, usually by offering short-term and long-term advantages to the administration bolstering organizations’ interests in the country. As an answer to these challenges, generic strategies enable firms to compete in their respective markets. To review, these generic strategies are differentiation, cost leadership, and focus (PORTER, 1985). Our analysis suggests that the mix of these strategies fosters competitive advantage and superior performance. Firms can choose to adopt focused differentiation or focused cost leadership strategies. We further assert that multinationals in Asia pursue a differentiation strategy due to the abundance of labor and other factors make it difficult to pursue cost leadership strategies. However, Asian
multinational companies are expanding quickly to other markets, especially in Africa, using focused cost leadership strategies.

Meanwhile, many Asian countries offer both good and bad conditions for business. For instance, China’s foreign exchange restrictions, anti-trust laws, and various societal imperfections are countered by the government’s various incentives to support foreign investors. Low language barriers make India attractive to foreign investment, yet the ease of doing business in India is complicated due to cumbersome procedures that must be followed. Japanese companies leverage personnel, a network of suppliers and customers, and technologies to create value for stakeholders. International strategic alliances promote the knowledge and capabilities needed to create innovative products and services and sustain competitive advantage. Collaboration is important to navigate a rapidly evolving ecosystem. Growth opportunities, technological competence, learning capacity, risk-tasking abilities, and cost organization are some of the factors to consider when joining strategic alliances (RASHED & NESHA, 2016).

**CONCLUSIONS**

The Asian continent grows more stable for business with each passing year. The Internet and the region’s unique structural demographics have driven the region’s biggest changes and the elements necessary for strategic success in the region. In short, MNEs must understand the business environment of the particular country they want to enter. For MNEs operating in Asia, the differentiation strategy seems to be the best business strategy. However, most multinational companies in Asia adopt a combination of focused cost leadership strategies to best serve their customers in developing countries.

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Porter’s generic strategies for competitive advantage: how they work in selected Asian economies

Estratégias genéricas de Porter para vantagem competitiva: como funcionam em economias asiáticas selecionadas

Estrategias genéricas de Porter para la ventaja competitiva: cómo funcionan en economías asiáticas seleccionadas

**Resumo**
As estratégias genéricas de Porter são importantes para que as organizações ganhem uma vantagem competitiva em seu respectivo mercado. Isso é especialmente verdade para as empresas da Ásia, a maior economia continental do mundo em termos de Produto Interno Bruto (PIB), que também é caracterizada por restrições cambiais, leis antitruste e guerras de preços. Este artigo se concentra na literatura sobre as estratégias genéricas de Porter nos contextos dos três maiores países asiáticos (China, Japão e Índia). Nossa revisão destaca as estratégias genéricas perseguidas pelas multinacionais na Ásia e fatores a serem considerados na execução de planos estratégicos de expansão de negócios para a região.

**Palavras-chave:** Estratégias genéricas. China. Japão. MNEs.

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**Abstract**
Porter’s generic strategies are important for organizations to gain a competitive edge in their respective market. This is especially true for companies in Asia, the world’s largest continental economy in terms of gross domestic product (GDP) which is also characterized by foreign exchange restrictions, anti-trust laws, and price wars. This paper focuses on the literature on Porter’s generic strategies within the contexts of the three biggest Asian countries (China, Japan, and India). Our review highlights the generic strategies pursued by multinationals in Asia and factors to consider when executing strategic plans in business expansion to the region.

**Keywords:** Generic strategies. China. Japan. MNEs.

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**Resumen**
Las estrategias genéricas de Porter son importantes para que las organizaciones obtengan una ventaja competitiva en sus respectivos mercados. Esto es especialmente cierto para las empresas en Asia, la economía continental más grande del mundo en términos de producto interno bruto (PIB), que también se caracteriza por restricciones cambiarias, leyes antimonopolio y guerras de precios. Este artículo se centra en la literatura sobre las estrategias genéricas de Porter en los contextos de los tres países asiáticos más grandes (China, Japón e India). Nuestra revisión destaca las estrategias genéricas seguidas por las multinacionales en Asia y los factores a considerar al ejecutar planes estratégicos en la expansión del negocio a la región.

**Palabras clave:** Estrategias genéricas. China. Japón. MNEs.