

## The Strategic Elements and Performance of Chinese Publicly Listed Automotive Manufacturers: A Proposed Conceptual Framework

Fu Shanliang<sup>1</sup>, Alex Ng Hou Hong<sup>2</sup>, Lim Kim Yew<sup>2</sup>, Wong Chee Hoo<sup>2</sup>,

<sup>1</sup>Hebei Finance University, Baoding, Hebei, 071051, China

<sup>2</sup>Faculty of Business, Communication and Law, INTI International University  
Persiaran Perdana BBN, Putra Nilai, 71800 Nilai, Negeri Sembilan

\*Email: houhong.ng@newinti.edu.my

### Abstract

Automotive industry plays an important role in a nation's economy and society. The automotive manufacturers are the main force of the automotive industry. The core research objectives of this study are the strategic elements of Chinese publicly listed automotive manufacturers experiencing a huge transformation progression under turbulent environmental changes. This study aims to focus on the relationship of competitive strategies, organizational innovation, positioning and performance of Chinese publicly listed automotive manufacturers. This study also works out a conceptual framework based on the four variables mentioned. The data is collected either from annual reports of Chinese automotive manufacturers, or from questionnaire distributed to managers at various level of these manufacturers. This study is to help Chinese automotive manufacturers survive and develop well by offering the results of this research on competitive strategy under the circumstance of current new technology trends.

### Keywords

Competitive Strategies, Organizational Innovation, Positioning, Organizational Performance, Chinese Publicly Listed Automotive Manufacturers

### Introduction

No matter what the nature of a firm's business is, it always operate under the influence of its environment (Munyoki, 2015). The environment is composed of internal and external factors that are affecting the survival and development of a firm. In order to survive and develop, a firm needs to adapt itself to the change of the environment constantly.

The current world is entering into a turbulent environment which surrounding with intensified competition, disruptive technology, volatile demand as well as instable economic, social and political situations (Lapersonne, 2018). Thus, how to deal with this turbulent



environment and how to face intensified competition are the key to a firm's survival and sustainable growth.

The competition between various firms in any industry is inevitable in this globalized world (Baroto, Abdullah, & Wan, 2012). Competition is the driving force behind the market and it is the process of rivalry between companies operating to obtain sales and earn profits (Munyoki, 2015). Facing dynamic external environment, cutting-edge technology and globalization, firm leaders are forced to look ahead and form their competitive strategy and find themselves a unique position within an industry to survive and develop (Beglari, 2017).

### **Problem Statement**

Facing this turbulent environment and disruptive technology innovation trend, Chinese Automotive manufacturers are experiencing a huge transformation progression. Their survival and development are closely related to this competitive environment and technology innovation.

Riding on a suitable position (Porter, 1996) of the industry is critical to any manufacturer who aims to gain superior profitability. However, Chinese domestic automotive manufacturers are generally weak in generating revenue and making profit. According to statistics published by CAAM, Chinese domestic auto brand manufacturers sold 9.98 million passenger vehicles in 2018, a drop of 8% compared with 2017, having a market share of 42.1% which is also a falling down from 48.8% of 2017.

The Chinese automotive manufacturers in the largest automobile sales market which occupying over 40% of market share are seldom earn superior profit in this competitive industry. This study is to investigate this problem deeper from the relationship of competitive strategy and organizational performance under the influence of organizational innovation and positioning. This research tries to find an explanation of the problem by setting up a unique conceptual framework which combines generic competitive strategies, organizational innovation, strategic positioning and organizational performance.

### **Significance of the Study**

This study can be a test of competitive strategy theory under new innovation trends in the context of fast-growing Chinese automotive industry by generating a conceptual framework which includes generic competitive strategies, organizational innovation, positioning as well as organizational performance. This study also seeks to advance competitive strategy theory by combining marketing theory as well as innovation theory by empirical analysis of the Chinese automotive industry which is not only a globalized industry, but also a fast-growing one.

Firstly, this study aims to promote the development of Chinese Automotive Industry in terms of Strategic Planning under the turbulent environment which is characterized with intensified competition. This study also can help Chinese automotive manufacturers survive and develop well by offering the results of this research on competitive strategy under the circumstance of current new technology trends. Lastly, this study can benefit managers of automotive industry by showing to them a clear empirical picture in term of the relationship of competitive strategies and organizational performance.

### **Literature Review**

Strategy is a plan, ploy, pattern, position and perspective (Mintzberg, 1987a). Strategy is necessary for an organization as it gives directions to people who work in it and also define the organization as a unique one (Mintzberg, 1987b). In essence, developing a competitive strategy is working out a formula for how a firm is going to compete with its rivals in an industry, identifying its long-term goals and selecting feasible plan and policies to implement to ensure its goal can be achieved (Potter, 1980).

There are two central questions in developing an effective competitive strategy for a company (Porter, 1985). One is the attractiveness of the industry in which the company is competing, and the key point is that different industry may inherently have different profitability levels. Companies, seeking to gain superior profitability, must be aware of its industry profitability by analyzing industry carefully. In this regard, Porter put forward the influential Five Force Analysis Model. The other question is to find a unique strategic position which its rivals cannot easily imitate, so the company can gain larger market share than its competitors and earn superior profit.

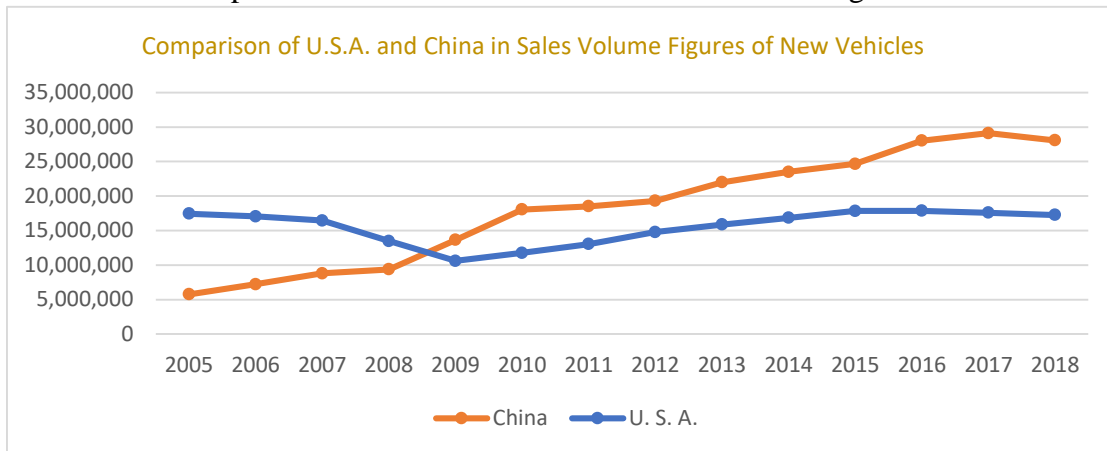
According to Porter (1985), there are three internally consistent generic strategies which can help companies win the competition and outperform their counterparts. The three generic strategies are overall cost leadership, differentiation as well as focus. The three strategies can be used independently or in combination so as to help companies create a defendable position in the long term and outperform it competitors in the industry.

Automotive Industry is a comprehensive and intensive industry which combines capital, technology and talents, having an important impact to a nation's multiple construction and improvement of people's living standards (Yin, 2011). It is large in scale, long in industry chain, covers a wide range of many integrated economic departments, making great contribution as a driving force to the growth of many industries.

Automotive industry plays an important role in a nation's economy and society. In China, it is now the second largest industry ranking after real estate industry. According to National Bureau of Statistics of China, in 2018 China's Gross Domestic Product (GDP) amounts to 90030.9 billion RMB. And the revenue generated by automobile manufacturers in

a certain scale in China in the same year is 8463.7 billion RMB. In the year 2018, China's automotive industry value accounts for 9.4% of its GDP.

Table 1. Comparison of U.S.A. and China in Sales Volume Figures of New Vehicles



Source:

OICA & CAAM & Mark Lines Data Center

According to Table 1, since the year 2009, China has exceeded U.S.A. and became the largest Vehicle Sales Market in the world. China's automotive market experienced steady growth over the past 13 years. On the one hand, the development of China's automotive market not only made great contributions to the progress of Chinese society, but also improved Chinese people's life quality in many ways.

On the other hand, the Chinese automotive market has cultivated Chinese Automotive Manufacturers and help them establish their own brands and grow bigger and bigger gradually in the competitive environment.

From Table 1, we can also notice that after over 13 years' stable sales growth, Chinese Automotive industry witnessed a turning point in 2018. After almost three decades of sales growth, China's automobile sales volume experienced a slight falling down in the year of 2018. Although the overall sales volume was still the No. 1 in the world, the development of Chinese automotive industry is confronting with many ever-changing trends and challenges in the current turbulent environment.

### Four Significant Disruptive Trends

The current automotive industry is evolving under four significant disruptive trends, namely electric, connected, intelligent and shared (Chen, 2018; Zhu, 2018). The electric trend is the result of the shortage of oil and the pollution of automobile emission. The concern of climate change and the worry of oil shortage step up the development progress of Electric Vehicles (EV), making it an important trend of automotive industry (Shi & Shang, 2013). The worldwide popularity of Tesla can serve as a typical example of this development trend.

In China, the development of electric vehicles began with the eighth period of five-year planning (1991-1995). Chinese central government dedicate significant resources to the development of this industry(Wang & Kimble, 2013). In July of 2017, Ministry of Industry and Information Technology (MIIT), Ministry of Finance, Ministry of Commerce co-issued a double credit management method for CAFC (Corporate Average Fuel Consumption) and NEV (New Energy Vehicle) (Guo at el, 2018). This management method is mainly to force traditional automotive manufacturers to reduce its oil energy consumption and lead them to the transformation from fuel-driven vehicle manufacturers to new energy-driven (Electric or Hybrid Electric) vehicle manufacturers.

On January 15th of 2018, China's National Development and Reform Commission published Intelligent Vehicle Innovation Development Strategy (Draft for comments). According to that draft, connected trend refers to Internet of Vehicles which is a people-vehicle-road-cloud information exchange network. And Intelligent trend means automatic driving or pilotless driving. Intelligent vehicles mean through equipped with advanced sensors, controllers, actuators and other devices, and the use of information communication, internet, big data, cloud computing, artificial intelligence and so on, the next generation of vehicle which can achieve automatic driving partly or wholly. Shared trend is also the result of the development of Internet and shared economy. Among these four trends, electric trend lays the foundation, and connected is the condition, intelligent is the key, and shared is future tendency.

### **Research Objectives**

This study aims to examine the relationship between three strategic elements which are generic competitive strategies organizational innovation and positioning adopted by Chinese Automotive Manufacturers and its organizational performance so as to help automotive manufacturers to find a better and more suitable strategy to survive and develop.

### **Research Questions**

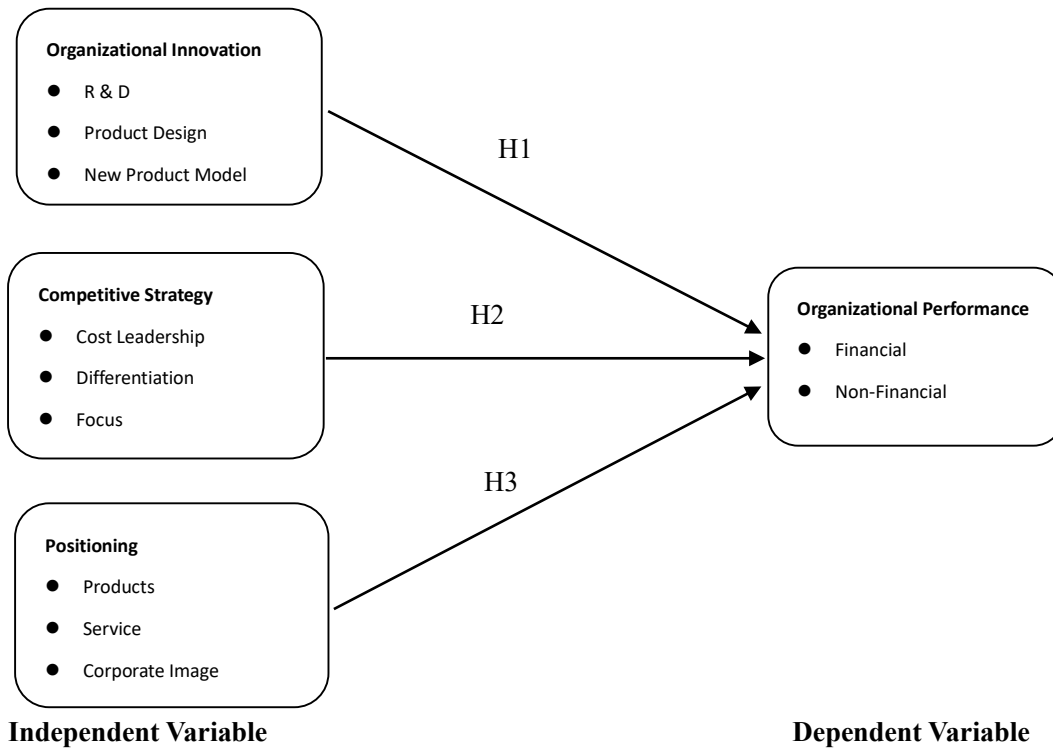
Based on the research objective, three research questions can be drawn out:

Question 1: to establish whether organizational innovation has a significant influence on the performance of Chinese automotive manufacturers.

Question 2: to establish whether competitive strategies have a significant influence on the performance of Chinese automotive manufacturers.

Question 3: to establish whether positioning has a significant influence on the performance of Chinese automotive manufacturers.

### Conceptual Framework



Based on the conceptual framework, this study mainly focuses on the following three hypotheses, and they are H<sub>1</sub>, H<sub>2</sub>, and H<sub>3</sub>.

H<sub>1</sub>: Organizational innovation has significant influence on the performance of Chinese publicly listed automotive manufacturers.

H<sub>2</sub>: Competitive strategy has significant influence on the performance of Chinese publicly listed automotive manufacturers.

H<sub>3</sub>: Positioning has significant influence on the performance of Chinese publicly listed automotive manufacturers.

### Research Method

In the study, quantitative research method is to be adopted. This study is mainly based on Michael Porter's competitive strategy theory and results of questionnaires aiming to distributed managers at various level in Chinese publicly listed automotive manufacturers. There are three independent variables, generic competitive strategies organizational innovation and positioning. Organizational Performance are the only dependent variable.

### **Scope of the Study**

This study will mainly focus on the relationship of competitive strategy and organizational performance in the context of Chinese Automotive Industry. In terms of Chinese Automotive Industry, as mentioned above, technology innovation and Chinese automotive market are two so influential factors that no automotive manufacturers can never ignore. This study will combine competitive strategy, organizational innovation, positioning as well as organizational performance and work out a conceptual framework.

Chinese automotive manufacturers are the core research objective. The data is collected either from annual reports of them, or from questionnaire distributed to executives of these manufacturers. This study selects twenty-six publicly listed Chinese automotive manufacturers as investigating objects for the following two reasons. On the one hand, the selected 26 automotive manufacturers are the major players of Chinese Automotive Market; On the other hand, it is for the reason of data availability. Data availability is key to the completion of the research.

### **Discussion**

The relationship between competitive strategies and organizational performance is a traditional hot topic for a long time. This study is different from other research in that firstly it focuses on the fast-developing automobile industry; secondly, it concentrates on the new innovative trends in this industry; lastly it uses updated data from managers of Chinese publicly listed automotive manufacturers.

This research combines classic competitive strategy theory, turbulent environment, organizational innovation as well as updated data from Chinese automotive manufacturers with purpose of building a bridge between theory and practice.

### **Conclusions**

This study firstly elaborates the background in which Chinese automotive manufacturers is facing. They are confronting with turbulent environment filled with intensify competition, technology innovation as well as volatile demand. The four new trend concerning automotive industry was discussed. In problem statement, this study proposed in the largest automobile sales market, Chinese domestic automotive manufacturers cannot earn superior profit. In order to go deeper with this problem, this study try to resolve this problem from the angle of the relationship of three strategic elements, namely competitive strategy, organizational innovation, positioning, and organizational performance.

The main research objective of this study was composed of three specific objectives which cover the determining of the influence of the organizational innovation and strategic

positioning on the relationship between competitive strategies and organizational performance of Chinese Automotive Manufacturers. The value of the study was demonstrated from different perspectives such as competitive strategy related theory, automotive industry, automotive manufacturers as well as company executives.

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