

SOURCES OF COMPETITIVE ADVANTAGE: LESSONS FROM THE JAPANESE AUTO INDUSTRY

For most of the last two decades the Japanese automotive industry has rated first among buyers in terms of reliability, build quality and durability. Clearly, the industry boasts a number of sources of competitive advantage, highlighted by lean production, organisational philosophies and the way it is starting to dominate markets from luxury vehicles through to entry-level products for emerging markets.

But can the culture of continuous improvement perfected over the 50 years in Nagasaki, Toyoda City and Nissans home town, also be used by high technology SME manufacturers in Australia? The short answer is yes, but, the key is to take key points from the plethora of information that exists, and to apply it selectively and judiciously in order to facilitate the benefit.

How the Japanese auto industry maintains its competitive advantage and defends its market dominance shows valuable insights for all. It could be argued that the key to the industry's long-term success has been the evolution of a set of core competencies that have underpinned Japanese auto makers' global dominance. More than that, these core competencies are constantly being questioned in light of increasing global economic uncertainty and whether or not the various industry players need to develop a new suite of attributes to ensure long-term survival in the face of increasing competition.

There have been various theories proposed which describe the relationship between core competencies and competitive advantage. It has been suggested that "competitive advantage results from the way individual businesses leverage, develop and deploy their resources and competencies."¹ Three methods of creating sustainable competitive advantage are:

1. cost leadership,
2. product differentiation, and
3. focus, where a business chooses to compete in only certain segments of a target market.²

Similarly, it has been argued that competitive advantage relies on an organisation having distinctive capabilities including: developing critical internal and external business relationships; building a reputation for product quality; having the ability to innovate; and utilising strategic assets to build dominance.

Core competencies have “three essential components: resources, capabilities, and perceived customer benefits”.³ However, core competencies only deliver competitive advantage when they create a value proposition which confers superior customer benefits over and above those of competitors. Therefore, core competencies create competitive advantage when they combine to confer a number of product attributes including: perceived customer benefits; superiority; complexity, difficulty to imitate; durability; uniqueness; inability to be substituted and adaptability.

Japanese auto makers have in large part been able to derive deep layers of competitive advantage by successfully combining key attributes including superior performance, a clear business strategy, core production competencies, the configuration of value adding activities, coordination, integration and responsiveness. In my view, three key elements have emerged which underpin the industry’s long-term competitive advantage.

Firstly, it has been built through its ability to “leverage core competencies, build architecture and develop strategies which are superior to those of competitors and difficult to emulate”.⁴ Secondly, it has successfully coordinated and integrated global operations more effectively than competitors. Thirdly, manufacturers have utilised distinctive administrative heritage, where “management tools matter less than its mindset”.⁵ In short, Japanese competitive advantage stems from manufacturing efficiency, product quality, human resource management, supplier networks and distribution systems. But no single elements dominate; rather, it is the combination of all elements which facilitates the deep layering of competitive advantage.

The way in which Japan’s automakers have developed core competencies has depended on the way they have learned to “combine, co-ordinate and deploy resources with other firm-specific and firm addressable resources”.⁶ The nature of

the product makes imitation relatively easy; Japanese cars are not particularly unique; attributes can be quite readily substituted and they have no tangible advantages across different markets.

So what is it exactly that allows Japan to consistently combine attributes to make their products superior to those of their competitors?

It has been argued that “global leadership in a market is likely to be based upon no more than five or six core competencies”.⁷ Successful organisations adapt and build new core competencies for changing business environments and different markets. In this respect, Japanese car makers have established global competence by undertaking business in a large number of different markets and by sourcing and exploiting new resources to further strengthen core competencies and add value to activities. The industry has developed and maintained competitive advantage built around:

...products and relationships to distributors and customers; resources and relationships to suppliers; company specific information, knowledge and organisational learning; configuration or architecture of global internal and external activities; methods of coordinating global activities; culture of the organisation and technology and the way it is employed.⁸

The industry has used these inputs to build layers of competitive advantage by combining resources, capabilities and competencies to configure and coordinate value added activities, and by adapting and developing its organisational culture and administrative heritage over time. These layers of competitive advantage are built on human, financial, physical, technological, legal and informational resources. A number of observers have argued that the fundamental reason for this success in the global marketplace lies in underlying corporate philosophy – the set of rules and attitudes that govern the use of its resources. Based on Japanese cultural ‘norms’ that promote harmony and the collective good, the core tenets underlying the industry’s competitive advantage are: to base management decisions on a philosophical sense of purpose; to think long term; to have a process for solving problems; to add value to the organisation by developing its people and to recognise that continuously solving problems drives organisational learning. This philosophy

fosters creativity, continuous improvement and innovation by encouraging organisation wide employee participation. Each and every organisation can learn from this, regardless of size or purpose.

Competitive advantage is derived through value-added activities, which in turn are developed within and across functional areas. In developing cost leadership/price based strategy, Japanese auto makers have built core competencies primarily in production, marketing and procurement functions. Purchasing models have allowed the industry as a whole to achieve advantages through mutually beneficial, collaborative relationships with key suppliers.

By and large the industry secured its dominant market position by actively building international production systems while increasing the localisation of activities, including vehicle development, procurement, production and marketing. Whilst this model often characterised the managerial norms and process of Japanese companies throughout the 1970s and 1980s, since that time most have progressively moved to include elements of a transnational business strategy. That is, using what is essentially a globally proven platform to make product in and to suit local markets.

Today, Japanese auto makers' market dominance is being delivered on the back of more flexible configuration of resources and capabilities, greater utilisation of diverse overseas operations and heightened emphasis on the development, use and diffusion of knowledge throughout the company. Key amongst them is manufacturing, where geographically spread but interdependent facilities, including a number of 'link plants', are utilised to account for fluctuating demand. This is also demonstrated by the emerging importance of the roles of overseas subsidiaries whose contributions are now readily integrated into worldwide operations.

Whilst going global may not be on everyone's horizon (at least in the short term), the messages about flexibility, utilisation of resources and creating and encouraging a learning environment are key for any organisation wanting to develop competitive advantage. The adoption of more transnational strategies has meant that different methods are now utilised to exploit core capabilities and to deliver competitive advantage. Simultaneously, organisations utilise more 'specialised' geographically

diverse assets to confer competitive advantage. Specialist functions like product design and development have been excentralised to deliver flexibility, economies of scale and facilitate the faster commercialisation of new models. Decentralisation has been successfully used to not only increase local input and account for local tastes, but also to increase the importance of local managers and operations.

Therefore, strategically, the Japanese auto industry has moved towards simultaneously developing worldwide efficiency, flexibility and learning capabilities. This seems to be typical of many high tech Japanese industries that want to 'own' a customer for life, and adopt a much more strategic approach to markets than many competitors. Competitors have focused on emulating the industry's benchmarked manufacturing processes, by studying factory automation, supplier relationships and just-in-time systems. Despite all the benchmarking, the competition has not been able to get the same results and it is only relatively recently that rivals have understood that the Japanese success is based in no small measure on the capabilities of employees and the responsibilities of leaders.

The take away message?

If you can utilise scale efficiencies, remain nimble and flexible to quickly react to market changes AND encourage and develop a learning culture where everyone drives innovation, you're on a winner. It may sound glib, but the Japanese automotive (and other industries like consumer electronics, cameras and computers) have pretty much mastered all these elements. It is not an easy task, but the proof of successfully combining these elements is self-evident. Despite the Japanese economy having been in a three decade long 'flat spot', its high tech manufacturers still dominate world markets and are widely considered to be best in class.

Like any industry wanting to stay in front of the competition, whether it is the Japanese auto industry or emerging Australian gen-tech manufacturers, they each must continue to develop a suite of interdependent resources and capabilities as sources of competitive advantage. However, one must be careful not to become too dispersed or overly complex. It is best to stick to the game plan and not to devalue the value proposition that made your operation successful in the first place. Perhaps

a new balancing act is required, so that you can defend and reinforce existing sources of competitive advantage whilst continuing to develop new ones.

References

- ¹ Stonehouse, Hamill, Campbell and Purdie p19, 2000
- ² Porter, pp 40-42, 1998
- ³ Stonehouse et al p125, 2000
- ⁴ ibid p121, 2000
- ⁵ Stewart and Raman, p76, 2007
- ⁶ Stonehouse et al, p126, 2000
- ⁷ Prahalad and Hamel p81, 1990
- ⁸ Stonehouse et al, p126, 2000