

Application of Porter's Model and Johnson Cultural Model on Chinese Automobile Sector

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Abstract - In this research paper the authors will check the relevance of Porter's five forces model and Johnson cultural web model of Chinese car industry and failed Volkswagen-Suzuki alliance. In this era of globalization, business is crossing the international boundaries and companies are looking for competitive advantage. Culture plays a major role in international ties and successful partnerships. Both the examples discussed in this paper are from automobile industry. China is the leading car manufacturer of the world even in the recession phase. The authors will apply porter's five forces model on Chinese car industry and also analyse cultural differences between Volkswagen and Suzuki by applying Johnson cultural web model.

I. INTRODUCTION

In this paper the authors will discuss about two important strategic management models which are Porter's five forces model and Johnson cultural web model. Porter's five forces model is based on five forces which are helpful in understanding the competition in a particular industry. Whenever any industry plans to expand itself in overseas market, it is advisable for the managers to do Porter's five forces study of that market. It comes under the category of micro-environment analysis of industry. Johnson cultural web model is very useful in understanding the organizational culture of a specific industry or firm. The cultural web model is based on six cultural elements and it provides a detailed analysis of internal culture, power structure and control system of the company. The author will discuss about Chinese automotive segment based on five forces model. The author will also discuss about the failed alliance of Volkswagen and Suzuki to understand the cultural web model in real situation. The benefits and further scope of improvement in the above mentioned two models will also be discussed. The managers are finding both these models very useful in doing strategic management of the company. In the last section of the report the author will discuss certain recommendations to a car company for improving competitive strategy in foreign market. This report is based on secondary data. The secondary data consist of journal articles, online news, e-books and reports etc. This report will provide the in-depth

understanding of two important strategic models used in current business practice.

II. PORTER'S FIVE FORCES MODEL

In this part the authors will analyse the application of Porter's five forces analysis and Cultural web model. Porter's five forces model is useful in analysing the level of competition within an industry and helps the organization in framing its market entry strategy. The five forces analysis was invented by Michael Porter in 1979 and those forces created a revolution in strategic management of companies. Porter's five forces analysis are used to analyse the micro-environment inside the country for a specific industry. The five forces given by Porter are threat of new entrants, threat of substitute products, bargaining power of customers, bargaining power of suppliers and rivalry among the competitors as shown in figure 1.

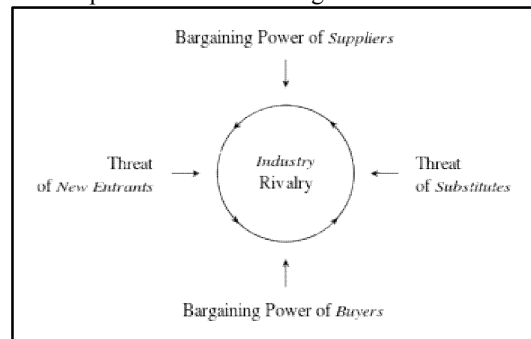


Figure 1. [14]

Threat of new entrants refers to the entry of new companies in the same segment. For example, there are many companies in car industry, that is, Volkswagen, JLR, Suzuki etc. The threat of new entrants has been affected by the entry barriers present in a country. These barriers are government policies, capital requirement, and infrastructure, switching cost to customers, customers demand, and economies of scale etc. threats of substitute products to the presence of similar products within a specific industry. The substitute products perform the similar function as the industry product but by different means [15] For example, coffee can be considered as substitute of tea.

Bargaining power of customers' increase when there are more number of companies are present in a particular business segment. Customers can switch to another company if it provides good quality at lesser cost. Powerful customers can bind the companies to reduce their prices. Bargaining power of suppliers refer to the negotiation power of the raw material supplier with the manufacturer of the products and services. The bargaining power of suppliers increases if they are less in number and vice versa. The industrial rivalry is the competition among different firms present in a specific segment in a country. The innovative capability of the firm helps it in getting competitive advantage.

III. JOHNSON'S CULTURAL WEB MODEL

The culture plays an important role in the success or failure of an organization. The organizational culture refers to the set of values, beliefs, attitudes practiced inside an organization and the way things have been done in that organization. [10] have presented a cultural web which was helpful in understanding the culture within an organization. The figure 2 is showing the cultural web.

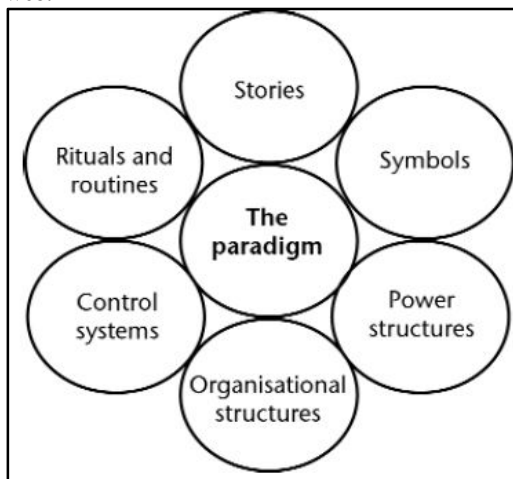


Figure 2. [18]

The six major elements of cultural web are stories, rituals & routines, symbols, control systems, organizational structure and power system. Stories are the past events discussed by the people inside and outside of the company. The past events provide knowledge about the behaviour of company officials in various situations. The daily behaviour and actions of people have been described by the element rituals and routines. Symbols are the visual representation of logos, dress codes and colours

of the company. The organizational structure provides knowledge about the type of leadership followed inside the company. The top-down hierarchical structure and organization chart of the company. Two organizations have different organizational structure within the same country. Control systems are the ways organizations have been controlled. The control system includes financial system, quality system and rewards of the organization. Power structure is the way power has been distributed inside the organization [5]. In some organizations power rests on the shoulders of one or two key executives while in their power has been distributed from top to bottom. The culture of a particular country also affects the organizational culture of the company. Culture plays a significant role when two organizations merge with each other or when the organizational changes occur inside a company.

IV. APPLICATION OF PORTER'S FIVE FORCES MODEL IN CHINESE CAR INDUSTRY

The impact of globalization and industrialization can be seen on Chinese automobile industry. China is the world's fastest and leading automotive maker. The global economic slowdown has not impacted the Chinese automotive industry. In terms of volume, China is producing more number of cars in comparison to France, Germany and Korea [19]. The threat of new entrants is medium to low in Chinese automotive industry. It is difficult for domestic manufacturer to enter in Chinese car industry segments. The main barriers for entry in car industry in China are financial costs and government policies [1]. The new market players require high fixed cost for setting up their production facilities in China and there is requirement of good infrastructure as well. The boom of Chinese car industry has attracted heavy foreign direct investment. Many foreign car manufacturers are looking to set up their base in China to achieve economies of scale. The government policies and other entry barriers have also reduced for foreign car manufacturers. The threat of substitutes is lower in Chinese automotive industry. People can say that public transport is the main substitute of cars in China but the public transport will not affect the purchasing decision of the customers. Some dealers are also selling cheap second hand cars in China. These cheap second hand cars can also be a substitute of the new branded cars in Chinese automotive market.

The potential of car industry is continuously increasing in China. China is selling 37% more cars in comparison to previous year [21]. The industrial rivalry is on high in Chinese automotive industry. One can argue that rivalry is moderate in luxury car segments. A big number of brands are dominating the Chinese market. These brands are Toyota, General Motors, Ford, Honda, Volkswagen, Nissan etc. Bargaining power of customers is high in Chinese market because there are too many options available to the customers. The purchasing power of the customers is also increasing because income level is increasing. The demand of the luxury cars is also increasing in Chinese market. The loyalty for brands weaken the bargaining power of customers to an extent. The raw materials like steel and other metals required for the manufacturing by foreign manufacturer is provided by few suppliers worldwide which increase the bargaining power of the suppliers in Chinese market. Overall, the bargaining power of the suppliers is moderate in Chinese market. A big number of foreign manufacturers are present in China. Those foreign manufacturers are very concerned about timely production of the cars. The agreements between manufacturers and suppliers are also increasing the bargaining power of the suppliers because the nature of agreements is indispensable. The domestic manufacturer is not aligned to the contracts with local suppliers. The domestic manufacturers choose the suppliers as per their convenience. This will decrease the bargaining power of the suppliers. The reputed car manufacturers are looking for the suppliers which follow sustainable methods of production and this sustainability requirement is also increasing the supplier power.

V. APPLICATION OF CULTURAL WEB IN VOLKSWAGEN- SUZUKI ALLIANCE

The organizational culture plays a dominant role when two car companies from different countries make an alliance. The employees face certain organizational changes which they found difficult to implement in their daily life. Volkswagen and Suzuki entered in an alliance in December 2009 when Volkswagen purchased a 19.9% stake in the Japanese manufacturer [12]. Within 20 months of the partnership between Volkswagen and Suzuki ended. The cross cultural differences and different organizational culture of Volkswagen and Suzuki were the major reasons behind the split of Volkswagen-Suzuki partnership. Volkswagen was a German car manufacturer while Suzuki was a Japanese

manufacturer. The organizational culture of Volkswagen and Suzuki was very much different. The policies of two companies were different and the employees faced a cultural mismatch in their working approach [2]. On one hand the Volkswagen employees were very disciplined and fast in decision making on other hand the Suzuki employees were less disciplined and slow in decision making. Suzuki employees were less prone to risk taking in business. They felt problems in going along with Volkswagen employees.

Initially both the companies promised each other about technology sharing for hybrid cars and electric cars but they have not fulfilled their promises. Suzuki expanded its business purchase with Fiat and this decision upset the higher management of Volkswagen [3]. Volkswagen officials said that Suzuki has broken its promise on technology sharing with some third party. The communication differences between the top management of two companies were also a reason of their failed alliance. Suzuki employees were not happy with bossy attitude of Volkswagen employees. Volkswagen employees tried to show Suzuki that they were superior to them. Many business officials and research analyst said that both the companies were failed to understand the cultural values, attitude and organizational structure of each other. Volkswagen were eyeing on the big Indian market with the help of this alliance because Suzuki was a big name in Indian small car segment. Suzuki didn't found Volkswagen technology suitable for Indian market and the company was ready to form partnership with other companies in India. The top leadership of Volkswagen was much more task oriented while the top leadership of Suzuki was employee oriented. Finally, both the companies have ended up their alliance in 2011.

VI. STRENGTHS AND LIMITATIONS OF PORTER'S MODEL

Porter's five forces analysis is useful in introducing the industrial economics to the strategic management area. These five forces helped the small and big entrepreneurs in making their strategy while entering in foreign countries. The five forces analysis helped the companies in understanding the competition in overseas market and achieving economies of scale [9]. This model enables the managers to think about current situation of their industry in more structured and easy-to-understand manner. It also helps the companies in understanding their future profitability. There are also some major

limitations of Porter five forces model. The first limitation is that this model is applicable for broader level of an entire industry it is not applicable for smaller market level. Porter five forces model present the true picture of present day competitiveness in an industrial segment. It can be said it is static in nature while the companies need planning for future as well. There is also uncertainty in the conclusions made under five force analysis model. Institutional issues and firm specific factors are also important for controlling the industry but the five forces model only talks about external factors [13].

VII. STRENGTHS AND LIMITATIONS OF CULTURAL WEB MODEL

Cultural web model is useful in understanding the internal culture of the companies. The internal culture, values and attitudes defines the behaviour of employees of an organization. The cultural web model is very useful for managers while establishing joint venture, partnership and alliances with other foreign organization [4, 11]. The porter five force model put emphasis on external factors while cultural web model showcases the internal power and structure of organization. Cultural web model provides information about decision makers and power pillars of the organization. These cultural models reduce confusion in the minds of customers. Cultural web models are very useful in implementing organizational changes. The major limitation of cultural web model is the time required to apply this model in practice. There are six major elements of cultural web model. The international managers have less time in checking all the six elements. This cultural web model doesn't talk about the impact of country's culture on the organizational culture. Hofstede argued about cross cultural differences between different countries but there is no linkage between cultural web model and Hofstede model [8]. An organization needs to change its approach when it expands itself in foreign countries.

VIII. SCOPE OF IMPROVEMENTS

Porter five forces model should also include certain industry specific factors so that this model should also benefit small market study. Few researchers have argued that there is a need to add sixth force in the porter's model. The sixth force will be complementors. Complementors are the companies and firms which sell the products and services compatible to the goods and services sold by the given industry. This

sixth force will make this model more reliable. Porter's five forces model presented the micro-environment analysis in broader level. This model should be revised to make it more compatible in understanding minute competitive differences between the industries. There is need to eliminate the level of uncertainty from porter's model conclusions. The author wants to give some recommendations to improve the cultural model as well. Cultural model should be integrated with national cultural model that is Hofstede model so that managers can also understand the influence of foreign country culture on their organization. There are certain organizations, which donot have standard set of values, attitudes and beliefs. The employees from diverse cultural background work in those organizations. The cultural web model should also include an element which talks about diverse organization.

IX. RECOMMENDATIONS FOR VOLKSWAGEN TO IMPROVE ITS POSITION IN CHINA

Volkswagen has lost its top position to Toyota in Chinese market in terms of profit. Toyota sold approximately 7.5 million vehicles in comparison to 7.43 million vehicles of Volkswagen in first nine months of the year 2015 [6]. Volkswagen is looking to improve its competitive strategy in Chinese market. The top management of Volkswagen has admitted that a software has been fitted in the diesel cars of the company to manipulate the carbon dioxide emission. This statement made conditions adverse for Volkswagen in tougher Chinese market. The customers are raising questions over the moral values, ethics and routine decision making of the company. In fact, many customers around the world have lost their faith in Volkswagen.

The author will recommend Volkswagen to work on its cultural web to regain its top position in Chinese market. There are serious questions on the organizational structure and power structure of Volkswagen. It is the responsibility of top management that business ethics should be followed inside the company. This emission scandal can't be taken in good taste. The company officials need to avoid such incidence in future and adopt a transparent approach to win customer's trust in Chinese market. Chinese customers believe in long term relationship and they are loyal to the brands. The bad stories are coming out about Volkswagen in World market. In my opinion Volkswagen should admit its mistake openly in front of Chinese customer and

make a fresh start to capture the market leader position.

Another recommendation for Volkswagen is to reduce its high prices to achieve success in both Chinese and Indian market. One can argue that income level of people is increasing in both the emerging countries so there are no affordability issues, but choices of customers are also increasing. Bargaining power of the customers is increasing because there is tough rivalry between Volkswagen and other car manufacturing companies in China. The company needs to work on its quality and other factors to retain its old customers and add new customers to the list. In my opinion the company should focus on the production of fuel efficient Electric Vehicles to improve its sales. Energy efficient EV will be more in demand by global customers in coming years to reduce carbon emission level [20]. The world is facing the problem of global warming and the companies need to understand their environmental responsibility in manufacturing the products [17]. The company needs to develop new business model in which it can provide affordable prices to the young generation of China and India [16]. Young buyers can help the company in making a comeback.

In the last few years Volkswagen achieved more success in Chinese market in comparison to comparison to the combined market of U.S. and Western Europe. Here the author wants to recommend that Volkswagen should not be over ambitious by the economic growth of Chinese market. At this stage, the company can't take risk of overproduction. They should be in touch with the international suppliers so that suppliers can deliver the raw materials on time whenever required. Volkswagen group is not present in low cost SUVs and minivans segment [7]. More number of customers are demanding low cost SUVs in China and India. In fact, Volkswagen entered in a failed alliance with Suzuki to capture middle level and low level income customers. Volkswagen group should focus on manufacturing low cost SUVs and minivans to regain top position in Chinese segment. The low cost SUVs segment will also help the company in Indian market.

X. CONCLUSION

In the conclusion it can be said that this exercise of strategic analysis has been very much useful for the author to improve his in-depth understanding of strategic management models in business. This assignment helped the author to understand the practical application of five forces

model and cultural web model in business scenario. The author rate five forces model as most important among all the models because this model is key for environmental analysis of foreign market while making global strategy. Cultural model also has its own importance because cross cultural issues affect the partnership, sales and objectives of the company in host country.

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