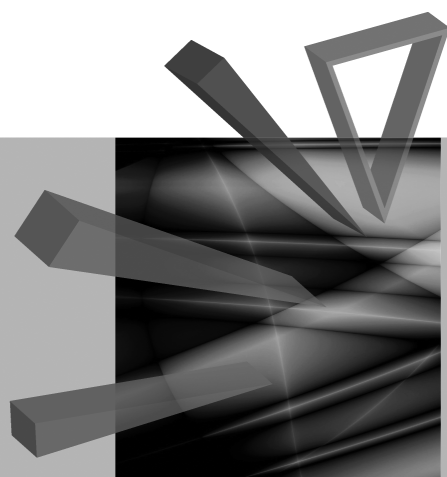


Faces of Competitiveness in Asia Pacific



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BUSINESS NETWORKS AND THE COMPETITIVENESS OF TRANSNATIONAL CORPORATIONS IN EAST ASIA

Summary: The importance of transnational corporations in the global economy continues to grow. TNCs are companies that are extremely competitive and efficient. Most TNCs are corporations from highly developed European countries, the U.S. and Japan, but also the increasingly powerful corporations are coming from the East Asian countries. One way to improve their economic position and level of competition is the creation of and participation in networks. Networks bring together many companies and use effectively the full potential of each individual. Actions in the group achieve better results than acting outside the network. An example of a functioning network may be Li & Fung Group.

Keywords: networks, competitiveness, transnational corporation.

1. Introduction

One of the aspects of modern economic relations is the increasing importance of transnational corporations. These are actors which, by their strength, are able to influence strongly the shape of the global economy. The most powerful transnational corporations currently come from the most developed economies in the world: the United States, Europe, and Japan. However, one should note the growing number of TNCs originating from the rapidly developing Asian countries, particularly from China. Among the 500 most powerful TNCs of the world according to *Fortune Global 500*, in 2005 there were 16 Chinese corporations, while in 2010 there were already 46.¹ Asian corporations are becoming stronger and more competitive against other corporations. The globalization of the world economy and the dynamic changes in the international market make companies seek new solutions to improve their competitiveness. One solution to assist in building a strong competitive position of companies is to connect to networks with other actors. The purpose of such connections is to increase one's potential to compete with other corporations. Companies have long recognized the benefits of a co-operative which is designed to develop and increase profits. Enterprise networks are also created in Asia by Asian transnational corporations to increase their competitiveness.

¹ *Fortune Global 500*, www.money.cnn.com.

2. Network companies and transnational corporations in theory

According to the UNCTAD definition, transnational corporations (TNCs) are incorporated or unincorporated enterprises comprising parent enterprises and their foreign affiliates. A parent enterprise is defined as an enterprise that controls assets of other entities in countries other than its home country, usually by owning a certain equity capital stake. An equity capital stake of 10%, or more, of the ordinary shares or voting power for an incorporated enterprise, or its equivalent for an unincorporated enterprise, is normally considered as the threshold for the control of assets.² Transnational corporations are companies with a very complex organizational structure, with a broad spectrum of activity and impact of great economic strength. Among the attributes of corporations, we should mention sovereignty, organizational complexity, geographic spread, the power to create knowledge, specialization, an ability to integrate and arbitration, flexibility, global efficiency, and networking.

Networking is here understood as the ability to create a network of mutual relations in terms of information, products or factors of the organizational units (eg. affiliates), individuals or enterprises. It can contribute to enhancing the competitiveness of an organization, its flexibility, innovation, and efficiency.³ Business companies networks are defined as “relatively stable grouping of separate, specialized units or enterprises cooperating in accordance with market principles, in which the traditional, hierarchical management structures have been replaced by horizontal, based on the relationship between partners existing in various organizational structures and distributed in different geographical areas”.⁴

Each transnational corporation is not homogeneous, although sometimes in economic analysis it is recorded in such a way. In everyday business processes that take place under the name of the corporations a number of companies registered in different countries are involved. The ownership structure of these entities may be very different. Very often joint owners who are not identified with business corporations are in the role of external partners. TNC is the more open to co-operation, the more blurred the boundaries in the form of its controlled entities. However, all the definitions of transnational corporations emphasize the need for a control center, from a perspective which assesses the degree of subordination of subsidiaries. Therefore, even if it appreciates the dissipation of resources in a network of co-operating in the framework of corporate enterprises and the notes to the internationalization of the value chain, it should be noted that the ultimate goal of corporations is to increase the

² UNCTAD, *World Investment Report 2007, Transnational Corporation, Extractive Industries and Development*, 2007, p. 245.

³ A. Zorska, *Ku globalizacji? Przemiany w korporacjach transnarodowych i w gospodarce światowej*, PWN, Warszawa 2002, pp. 50-57; and A. Zorska, *Korporacje transnarodowe. Przemiany, oddziaływania, wyzwania*, PWE, Warszawa 2007, pp. 126-132.

⁴ S. Łobejko, *Przedsiębiorstwo sieciowe. Zmiany uwarunkowań i strategii w XXI wieku*, Szkoła Główna Handlowa w Warszawie, Warszawa 2010, p. 52.

intrinsic value, gathered under the banner of the group. The essence of the enterprise network is quite different. Such a company can be a virtual existence (in the sense of the lack of legal personality), consisting of the entire network completely independent in terms of ownership of companies, or a single company operating on the market and treating the network and network relationships with others as their own resources. Decentralization of power is, therefore, changes to include in this business model. The ultimate source of success is not the value of a single company, but the value of the network, which is an element of it. It can also specify the desire to maximize the value of the external value of the direct environment of a company's business.

Business networks are characterized by a closed membership, which distinguishes them from the clusters, which may be a member of any company. The networks are also just a relationship based on co-operation rather than competition. The aforementioned agreements are the foundations of the co-operation agreement. Network allows firms to focus on core competencies and major outcome is to increase profits and sales.

3. Asian transnational corporations in the global economy

Transnational corporations originating from the Asian countries are developing very dynamically, increasing their economic power and influence in the home and host economies. Asian corporations are engaged in foreign direct investment permanently increasing its transnationality index. Table 1 shows the index's 100 largest non-financial TNCs.

Table 1. The top non-financial TNCs from the East Asian region*, ranked by transnationality index (TNI), in the world's top 100 non-financial TNCs 2008 rank

TNI**	Foreign assets	Corporation	Home economy	Industry	TNI (%)
1	2	3	4	5	6
18	25	Hutchison Whampoa Limited	Hong Kong, China	Diversified	82
37	20	Honda Motor Co Ltd	Japan	Motor vehicles	72.2
45	43	Mitsui & Co Ltd	Japan	Wholesale trade	64.8
48	33	Sony Corporation	Japan	Electrical and electronic equipment	61.8
56	34	Nissan Motor Co Ltd	Japan	Motor vehicles	59.2
73	76	Samsung Electronics Co., Ltd.	Korea, Republic of	Electrical and electronic equipment	54.2
74	5	Toyota Motor Corporation	Japan	Motor vehicles	52.9
83	80	China Ocean Shipping (Group) Company	China	Transport and storage	49.9

Tabela 1, cont.

1	2	3	4	5	6
91	90	Sumitomo Corporation	Japan	Wholesale trade	42
93	79	Hyundai Motor Company	Korea, Republic of	Motor vehicles	36.5
95	96	Marubeni Corporation	Japan	Wholesale trade	34.6
96	32	Mitsubishi Corporation	Japan	Wholesale trade	31.3
98	98	Hitachi Ltd	Japan	Electrical and electronic equipment	31.2
99	78	Petronas - Petroliam Nasional Bhd	Malaysia	Petroleum expl./ref./distr.	29.6
100	48	CITIC Group	China	Diversified	21

* The East Asian Region includes, according to UNCTAD classification, East Asian states: China, Hong Kong (China), the Republic of Korea, Macau (China), Mongolia, and Taiwan Province of China; and Southeast Asian states: Brunei Darussalam, Cambodia, Indonesia, Japan, the Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand, Timor-Leste, and Vietnam; ** TNI, the Transnationality Index, is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales, and foreign employment to total employment.

Source: UNCTAD database, <http://www.unctad.org/templates/page.asp?intItemID=2443&lang=1> (date of access: 10.05.2011).

Within 100 mostly transnationalized non-financial TNCs, there were fifteen companies from the East Asian region, especially from Japan. The average TNI's value (63.39%) was reached only by three regional corporations from Hong Kong and Japan (three years ago, with the average of 59.9%, there were four there⁵). It should be noted that six TNCs came from regional developing economies, especially the Republic of Korea and China, with one from Malaysia and Hong Kong (the latter location with an extremely strong position among developing and transition economies, see Table 2). Obviously, the list is dominated by the most dynamic regional economies; however, it is far from internal potential, because of relatively lower volume of foreign assets and employment, which confirms continuous concentration of production processes within home markets.

Among TNCs from developing and transition economies those from East Asia dominated undoubtedly (62 companies). Nevertheless, it is less than in a few previous UNCTAD reports,⁶ especially because of the increasing number of highly ranked corporations from South Africa (6), Arab states (Kuwait, Qatar, the United Arab Emirates), Mexico, Latin America, Turkey, and Russian Federation.

⁵ S. Bobowski, Proces internacjonalizacji przedsiębiorstw azjatyckich, [in:] B. Skulska (ed.), *Biznes międzynarodowy w regionie Azji i Pacyfiku*, Wydawnictwo Adam Marszałek, Toruń 2009, p. 358.

⁶ Indeed, both lists of non-financial TNC have been excluded from *World Investment Report* series recently.

Table 2. The top non-financial TNCs from East Asian region*, ranked by transnationality index (TNI), in the world's top 100 non-financial TNCs from developing and transition economies rank

TNI**	Foreign assets	Corporation	Home economy	Industry	TNI (%)
1	2	3	4	5	6
1	39	First Pacific Company Limited	Hong Kong, China	Electrical and electronic equipment	99
2	35	China Merchants Holdings International	Hong Kong, China	Diversified	96.8
3	73	Guangdong Investment Limited	Hong Kong, China	Diversified	95.1
4	93	Road King Infrastructure Limited	Hong Kong, China	Transport and storage	90.4
5	60	Li & Fung Limited	Hong Kong, China	Wholesale trade	90.3
6	87	Shougang Concord International	Hong Kong, China	Metal and metal products	89.1
7	34	China Resources Enterprises	Hong Kong, China	Petroleum expl./ref./distr.	89
9	1	Hutchison Whampoa Limited	Hong Kong, China	Diversified	82
10	95	Techtronic Industries Company Limited	Hong Kong, China	Other equipments goods	81.8
12	63	Acer Inc.	Taiwan Province of China	Electrical and electronic equipment	79.9
14	75	Beijing Enterprises Holdings Ltd.	China	Diversified	77
19	98	TPV Technology Limited	China	Wholesale trade	69.8
23	31	Axiata Group Bhd	Malaysia	Telecommunications	67.7
26	52	Flextronics International Ltd.	Singapore	Electrical and electronic equipment	65.2
29	13	Singtel Ltd.	Singapore	Telecommunications	63.2
33	26	Capitaland Limited	Singapore	Construction and real estate	60.9
34	33	Wilmar International Limited	Singapore	Food, beverages and tobacco	58.4
40	61	Fraser & Neave Limited	Singapore	Food, beverages and tobacco	54.7
41	4	Samsung Electronics Co., Ltd.	Korea, Republic of	Electrical and electronic equipment	54.2
45	86	Neptune Orient Lines Ltd.	Singapore	Transport and storage	52.3
46	7	China Ocean Shipping (Group) Company	China	Transport and storage	49.9

Tabela 2, cont.

1	2	3	4	5	6
47	91	Tanjong Public Limited Company	Malaysia	Pharmaceuticals	49.5
50	56	Genting Berhad	Malaysia	Other consumer services	47.9
51	38	YTL Corp. Berhad	Malaysia	Utilities (Electricity, gas and water)	47.8
55	66	Sime Darby Berhad	Malaysia	Diversified	45.7
56	79	ZTE Corp.	China	Other consumer goods	44.2
58	22	LG Corp.	Korea, Republic of	Electrical and electronic equipment	43.8
63	84	Lenovo Group	China	Electrical and electronic equipment	41.1
66	71	Keppel Corporation Limited	Singapore	Diversified	38.3
70	47	Sinochem Corp.	China	Petroleum expl./ref./distr.	36.8
71	6	Hyundai Motor Company	Korea, Republic of	Motor vehicles	36.5
74	30	STX Corporation	Korea, Republic of	Other equipments goods	34.5
79	5	Petronas – Petroliam Nasional Bhd	Malaysia	Petroleum expl./ref./distr.	29.6
84	85	San Miguel Corporation	Philippines	Food, beverages and tobacco	21.7
86	53	Posco	Korea, Republic of	Metal and metal products	21.4
88	2	CITIC Group	China	Diversified	21
90	37	China State Construction Engineering Corp.	China	Construction and real estate	16.6
94	67	China Communications Construction Co.	China	Construction and real estate	12.1
96	97	China Minmetals Corp.	China	Metal and metal products	11.6
97	89	PTT Public Company Limited	Thailand	Petroleum expl./ref./distr.	10
98	55	China National Offshore Oil Corp.	China	Petroleum expl./ref./distr.	9.4
99	78	China Railway Construction Corporation Ltd	China	Construction	9.1
100	27	China National Petroleum Corporation	China	Petroleum expl./ref./distr.	2.7

* See Table 1; ** See Table 1.

Source: UNCTAD database, <http://www.unctad.org/templates/page.asp?intItemID=2443&lang=1> (date of access: 10.05.2011).

Meanwhile, 16 firms came from Hong Kong, 13 – Taiwan (only part of them, those with highest indexes, were illustrated in Table 2) and China Mainland, accordingly. A “Plus Three” state – the Republic of Korea – was represented by five, relatively competitive TNCs. The average TNI’s value – 48.86% – was reached by 31 regional TNCs, with special regard to those located in Hong Kong and Singapore. Finally, the growing number of highly ranked transnationalized TNCs, which specialize in various business services, transport, real estate, and petroleum industries, may reflect progressive diversification of regional capital assets’ prerogatives, because of a tendency towards global resourcing, efficiency – and strategic assets – seeking orientations.

4. Examples of Asian business networks

The East Asian countries have considerable experience with business networks and other forms of interfirm linkages. Asian entrepreneurs “are well endowed with networking skills and capabilities that enable them to participate actively in cross-border business networks and transnational ventures. The institutional environment in Asia also favours the strategic formation and implementation of such networks. In other words, there are intense interactions between individual entrepreneurs and their embedded business systems”.⁷

There are three well-known systems of networking in East Asia: Japanese *keiretsu*, Korean *chaebol*, and Chinese family businesses. In Japanese and Korean cases these business systems are large, vertically integrated, and highly capitalized. Although not all the Chinese family businesses are big corporations, they have often been analyzed from the large enterprise perspective. Japanese, Korean, and Chinese transnational corporations are a popular subject of many economic research papers. “Yet empirical analyses of the structure and practice of large corporations with a global scope appear to show that (...) [they] should be replaced by the emergence of international networks of firms, and of subunits of firms, as the basic organizational form of the informational, global economy”.⁸

Over the last years Japan’s economy was dominated by strong pyramid business structures – *keiretsu*. But small companies (less than 20 employees) account for more than 85% of Japan’s manufacturing enterprises. Together with medium companies (up to 300 employees), they employ around 65-70% of the persons engaged.⁹ In *keiretsu* small and medium enterprises (SMEs) belong to a subcontracting pyramid controlled by companies on the top. In many cases, SMEs in *keiretsu* can only supply

⁷ H. Wai-Chung Yeung, *Entrepreneurship and the Internationalisation of Asian Firms: An Institutional Perspective*, Edward Elgar Publishing, 2002, p. 151.

⁸ M. Castells, *The Rise of the Network Society*, John Wiley and Sons, 2009, pp. 206-207.

⁹ R. Kienzle, M. Shadur, Developments in business networks in East Asia, *Management Decision* 1997, Vol. 35, No.1, pp. 23-32.

to companies within a pyramid. This kind of relationship has many disadvantages (but a number of positive effects too). To overcome them, SMEs are looking for partners outside the group.

The Japanese government promotes network systems for small businesses in order to strengthen them. The function of these co-operatives – called *kyodokumiai*, which may be best identified as voluntary federation – is to assist the survival and growth of member firms as individual organizations. Much of the interaction among affiliates is arranged and co-ordinated by the federation management office, but each affiliate maintains its own ownership, identity, and control over most of its daily activities.¹⁰

Another example of a successful attempt to create business networks is inter-industrial networks for technological activities (INTACs).¹¹ The exchange of information and utilization of collective resources across INTAC can finally lead to joint research and development or production. In many cases, these kinds of groups make a joint subcontracting agreement with a large corporation.

Because it is hard for a small or medium Japanese enterprise to maintain independence from the *keiretsu* and still be able to grow, most of success case studies come from niche markets. One of such companies, Misumi Corporation, created a western type of business network, providing an alternative to *keiretsu*. As a distributor of standardized parts and components for many industries, Misumi obtains its products from many suppliers. “Through Misumi Corporation contractors can sell to a much larger and broader customer base than if they stay strictly within a *keiretsu*. However, there is no guarantee of a long-term relationship in the Misumi network. Misumi maintains an arm’s length from the suppliers and cuts them off if they can source cheaper supplies elsewhere”.¹²

Chinese family enterprises are a kind of natural business networks. Being an effluence of collectivists culture, they have become a predominant economic force in China and been successfully extended throughout East Asia and Indochina. The Chinese family business networks do not rely on formal contracts. Financial arrangements and other business linkages are based on a network of trust. Although Chinese business networks are able to be very competitive in many areas, there are limits to the size to which this kind of organization can extend. Even if a business group will become large, its individual components will be kept relatively small.

The tendency towards building a large network of business partners controlled and co-ordinated from a small core is typical for modern networking business models. The best and most well-known example of this type of business orientation is Li &

¹⁰ M. Yasuda Lee, Ch.L. Mulford, Reasons why Japanese small businesses form cooperatives: An exploratory study of three successful cases, *Journal of Small Business Management* 1990, Vol. 28.

¹¹ K. Furukawa, Y. Teramoto, M. Kanda, Network organization for inter-firm R&D activities: Experiences of Japanese small business, *International Journal of Technology Management* 1990, Vol. 5 No. 1, pp. 27-40.

¹² R. Kienzle, M. Shadur, *op. cit.*, pp. 23-32.

Fung Group based in Hong Kong. The company's extensive global network of over 15,000 international suppliers is orchestrated by 240 offices and distribution centers around the world. To tell the truth, Li & Fung does not sell products. They do not own a single factory but they are responsible for creating goods worth 15 bn USD per annum. Li & Fung delivers a service called "global supply chain management" and a network-type organization is the best choice to assure flexibility, stability and a high level of competitiveness.

5. Conclusions

At present, nobody can deny the significance of transnational corporations in the global economy. But growing integration and interdependence of the global economy have made TNCs competition more intense. Intensified global competition has squeezed the profits and has also driven up the cost of market introduction of new goods and services. "TNCs can no longer rely on their own resources (...); they must pull together other firms, competitors and collaborators to help them ride out unpredictable storms in the global economy".¹³ Seeking for effectiveness TNCs evolve in network structures. They form strong intra-firm networks and wide inter-firm networks. Many of them "are thus not so much a transaction-cost-economising entity as a network co-ordinator in charge of the worldwide web of relationships and transnational operations".¹⁴

Networking is a process which aims to achieve the highest possible efficiency for all parties involved in it. Appropriate management of the network can exploit the potential of all individuals to achieve high competitiveness of the whole group. Asian corporations continually seek opportunities to enhance its competitiveness in order to compete with corporations from developed European countries and the US. One way may be the creation of networks of enterprises to fully exploit the opportunities offered by each company.

The global economy of the 21st century determines dynamic convergence and flexibility of business systems within the international competitive environment. Rapid expansion of TNCs, driven by ITC and proceeded liberalization, a phenomenon of global resourcing, transforms the way of conducting economic operations worldwide towards creating business networks. East Asian corporations, supported by liquidity and vitality of home economies, perceive geographical dispersion of activities through internalization and externalization of business functions as a comparative advantage, without which an effective competition with TNCs from well-developed states is really hard to achieve. The East Asian business networks are expected to grow further together with regional and supra-regional supply chains, local SME sector, and economic structures.

¹³ H. Wai-Chung Yeung, *Transnational Corporations and Business Networks: Hong Kong Firms in the ASEAN Region*, Routledge, 1998, p. 5.

¹⁴ *Ibidem*, p. 209.

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POŁĄCZENIA SIECIOWE A KONKURENCYJNOŚĆ KORPORACJI TRANSNARODOWYCH Z AZJI WSCHODNIEJ

Streszczenie: W globalnej gospodarce stale wzrasta znaczenie korporacji transnarodowych, które są przedsiębiorstwami niezwykle konkurencyjnymi i efektywnymi. Dominują korporacje z wysoko rozwiniętych krajów europejskich, USA i Japonii, lecz również coraz silniejsze stają się korporacje pochodząc z krajów Azji Wschodniej. Jednym ze sposobów poprawy swojej pozycji ekonomicznej oraz poziomu konkurencyjności jest tworzenie i udział w sieciach. Sieci zrzeszają wiele przedsiębiorstw, w pełni efektywnie wykorzystując potencjał każdej jednostki. Działanie w grupie pozwala na osiągnięcie lepszych wyników niż działanie poza siecią. Przykładem sprawnie działającej sieci może być grupa Li & Fung.