Manufacturers in developing countries have competitive edge

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(Phys.org)—Manufacturing plants in developing countries have more potential competitive advantages over their industrialized counterparts than just lower costs, a University of Melbourne study has found.

The study found that when compared to firms in industrialized countries, those in developing and emerging parts of the world have the potential to more quickly and efficiently improve costs, service quality, service delivery and flexibility.

Researchers say this is highlighted by the rise of manufacturing in developing countries such as Brazil and India, as well as regions such as Eastern Europe and South East Asia, as firms look beyond countries like the US for their manufacturing operations.

The research was co-authored by Professor Damien Power and Professor Daniel Samson from the University of Melbourne's Department of Management and Marketing at the Faculty of Business and Economics, as well as researchers from Michigan State University.

"We can expect organizations in China, Vietnam, Philippines and similar developing and emerging economies to continue to improve their quality, flexibility and innovativeness. This makes it even more challenging for us in Australia given the cost advantages their operations have," said Professor Samson.

According to Professor Damien Power, a combination of cost advantages and the potential for quickly building capability in quality, delivery and flexibility make it more attractive for global firms to set up businesses in such countries.

"The need to innovate and make improvements to manufacturing processes can be costly, difficult and time consuming, which is an important factor for firms as they decide on the increasingly global location of their manufacturing operations," he said.

"In an industrialized economy, such innovation can be constrained by firms already having reached the natural limits of return on asset investment. These are constraints not necessarily felt by new players or greenfield operations in developing economies."

The research highlighted that industrialized firms would find it difficult to enhance their capabilities relative to local competition because their competitors are likely to have undergone similar improvements, and as such will be at similar levels.

"The challenge of globalization and manufactured goods will only become more intense as companies in those developing countries continue to lift their game way beyond being cost competitive," said Professor Power.

Provided by University of Melbourne