

Germany  
competitiveness the  
porters diamond  
context economics  
essay



**ASSIGN  
BUSTER**

Context for firm strategy and rivalry: Germany can be considered center of Europe both for its geographic and political position. This gives to Germany the possibility to lead the European market and to manage a relevant diversification of its internal economy; it means to create a hugely competitive business environment for German companies.

The efficiency rate in German large and small companies is higher than international standards due to the great amount of off shoring and outsourcing practices so that it makes this economy the most competitive in Europe.

Throughout last years, German small and medium enterprisers performed better than the large ones, overtaking even the US competitive standards, as shown by the Work Competitiveness Yearbook 2010.

Those small enterprisers are the so called “ hidden champions” because they are little known to the public even if they are world market leaders.

In contrast to the practice of the other European countries to develop economies related on large state-owned industrial champions, Germany could be considered such as a private driven economy in which the small and medium enterprises are playing the most important role in boosting investments and employment rate. They also make the success of German export with the 80% of the production sold abroad; the Machinery and Equipment Cluster, for instance, holds almost 20% of world export market share.

These companies successfully compete on innovation processes and on improving efficiency, getting a great benefit from both the excellent European and German intellectual property protection. According to the World Economic Forum (WEF), Germany represents one of the world's best location in planning and operating security and it is one of the leading Nations in the field of propriety rights protection and contracts protection. This excellence let Germany to grant over 12, 500 patents at the EU Patent Office only in 2010 and to be the European leader in “ triadic patents”, registered in the three most important world's patent offices: the European Patent Office, the United States Patent and Trademark Office, and the Japan Patent Office.

The German legal system itself can be considered one of the most efficient and independent of the entire world. Moreover, the social and political stability of the country and the German's culture based on the total respect of the law's principles make this country a greatly attractive places for corporate investments projects even for foreign firms in almost all the industries.

In addition to the high quality of the legal organization, Germany has developed a very internationally competitive taxation system: in 2008 an ambitious reform was made in order to decrease the corporate tax burden by around the 25% and the corporate income tax down to 15% on all corporate taxable earnings.

Eventually, Germany has developed a unique corporate governance system that makes possible a virtuous match between workers and employers in

order to avoid time-consuming and value-destroying disputes: it becomes a key success factor to rise up during recession periods. As a matter of fact, core decisions are taken through “ Job Alliances” that enable flex-security on job market in order to keep companies competitive while maintaining job positions.

Great importance is given to the role of federal government which gives big support to this system promoting grants and self-regulation policies.

Factor conditions: Germany benefits from a huge number of natural resources such as building materials, natural gas, wood and other strategic natural elements. Its wide land gives to the country a lot of space that can be exploited focusing on clean energy production. Moreover, the climate represents an important factor in producing energy with the key role played by the wind that constantly flows in the northern part of the country. The prevalence of lowlands in northern regions makes Germans able to take the most possible advantage of the wind, becoming part of the Northern Power Cluster for wind energy production.

The pretty big population of Germany can be considered little diversified in culture and tradition with a big prevalence of German native speakers over the other cultures ( almost 91% of the entire population, as the CIA World Factbook points out ).

The German position on human capital point of view is strongly influenced by the unique education system that represent a best practice in all over the world. This is focused on the importance given to the professional training in order to provide people, since earlier age, with a set of skills useful to join <https://assignbuster.com/germany-competitiveness-the-porters-diamond-context-economics-essay/>

the job market. Parallel to the professional-oriented approach there is also a very good and selective university system for the large number of young people that decide to longer dedicate themselves to study activities: mechanical engineering, with more than 400, 000 matriculate students, ranks second in the top 20 of the most in-demand study programs and provides the highest skilled workers for the main sectors of the country such as automotive, machinery, electrical and electronic.

This dual track allows enterprises to reduce dramatically the labor costs in term of training programs and young people to enter in the job market already with a high productivity rate. Germany can be considered extremely attractive as a location for investments due to high productivity rates and stable wages. In addition, in recent years the overall labor cost has been the lowest in Europe with an annual increase rate of less than 2%; this job market context contributes to enhance strong competitive business relations.

Unskilled workers represent almost the 20% on the total workforce; this evidence reflects the attention paid to education and emphasizes the companies' ability to attract skilled workforce from other countries.

Germany Important concerns from government's point of view remain the unemployment rate (at the 6% in 2011, as said in CIA World Factbook) and the pretty low participation in work force, compared with countries such as US, UK or Japan.

In addition, Germany is one of the world's leaders in R&D investments, both in terms of budget and percentage of GDP, reaching the 2. 8% and <https://assignbuster.com/germany-competitiveness-the-porters-diamond-context-economics-essay/>

overlapping the EU average of 2.1%. The high regard to investments is coming both from the public and the private sector and the great number of PPPs (Private and Public Partnership) is playing a key role in German competitiveness and in planned development. The high level of R&D investments impacts positively on the dynamicity of German economy: over 27% of the manufacturing turnover is generated from innovative products.

Eventually, Germany derives its economic power also from its important and well organized grid of transportation infrastructures: the 2009-2010 Global Competitiveness Report of the WEF ranked Germany at the first position in terms of infrastructures. The rail system, which connects the country with all the neighbors by high speed rail, is gaining more efficiency thanks to the open access to the market given to privates that make the sector much more competitive than the state monopoly. This makes Germany the 6th position for railways infrastructure in comparison with the other states of the world (CIA World Factbook). Water ways and harbors are extremely well developed too and the airports system is ranked 13th in the CIA's comparison between countries as stated in the CIA World Factbook.

By the way, government's biggest challenge is to continue to increase the already large flow of foreign direct investments and to improve, as much as possible, the venture capital system by the adoption of specific policies. Today, German legal framework makes no distinction between national and foreign investments promoting principles such as freedom in trade and payments and the reduction of barriers.

Moreover, there are special treatments and opportunities for young entrepreneurs and start-ups: on one hand, special conferences and events like the “ German Equity Forum”, and, on the other one, proposals of venture capital partnerships through development banks and the “ German Private Equity and Venture Capital Association”. Further financial assistance is given at regional, national and European level through a wide number of instruments: cash incentives, interest reduced loans, public guarantees, labor-related incentives and R&D grants.

Demand conditions: “ Domestic demand is therefore becoming a more significant driver of Germany’s economic expansion” (from CIA World Factbook). Due to the Euro financial crisis the export rate to EU cover the loss in term of exports. In this perspective, a key role is played by the government in boosting investments and supporting internal demand: there are available some government’s loans made up for enterprises in order to enable them to borrow new capital at a lower interest rates and, in turn, be able to offer lower prices to the consumers’ market.

A great influence on the demand is played by the high level of quality and environmental standards that characterize German regulation. Germany has a virtuous regulation history, starting with the Deutsches Institut für Normung (DIN) during the '20s until today: a huge number of innovations has been introduced in this field such as self-regulation processes related to the new public governance system.

German standards and their regulation are also much influenced by EU, which is trying to homogenize the regulation of the Common Market and to

stimulate cleaner manufacture and energy production (EU 20/20/20 Program): this affects German's big industrial sectors such as machinery, chemical and power clusters. This context originates a more complex supply and demand structure which express the need to assess the high level of constraints due to the global environmental challenges.

Related and supporting industries: the important number of local suppliers are strongly supported by the efficient system of German scientific infrastructures set up both at the federal and local level . Germany has various types of research locations such as universities, laboratories, non-university institutes, companies and Federal as well as Länder institutions. Moreover, the “ German Federation of Industrial Research Associations” (AiF) is a great example of how German companies themselves cooperate to research and innovation activity contributing directly to the country competitiveness. The AIF mostly contributes to the technology transfer process and research activity in the growing market of renewable energies such as solar and wind power. Germany is home to several research infrastructures with global significance in physics, earth science, climate research or the humanities. Examples of research infrastructures are: Deutsches Elektronen-Synchrotron (DESY) and the German Climate Computing Centre (DKRZ).

In addition, Germany has a greatly developed Machinery and Equipment industry which provides the supply of power transmission engineering, material and air-handling technology and machine tools. This is the most innovative sector within the country and heavily influence German economy supporting all the other strategic sectors such as chemical, electronic,  
<https://assignbuster.com/germany-competitiveness-the-porters-diamond-context-economics-essay/>



automotive and renewable energy, providing the sub-components needed for production processes.

### **Da inserire nel diamante sul cluster:**

GREEN ECONOMY, INVESTMENTS...(clean power)

Germany is the world leader in green technologies f leader in sustainable industries (wind energy, photovoltaic, bioenergy industry,

Electricity (demand, import, exports, quanto produce il solare, il vento..)

WIND ENERGY: p. 6

PORTER'S FORCES (Porter's book)

### **Role of Government:**

Public demand, self-regulation, promoting networks and clusters.

Public R&D support and PPP P. 11 and others (ig. Website)

Role of Federal Government in green energy P. 5