The competitive advantage of nations

[Life]

WHAT IS THE DIAMOND MODEL? DESCRIPTION The Diamond Model of Michael Porter for the competitive advantage of Nations offers a model that can help understand the comparative position of a nation in global competition. The model can also be used for major geographic regions. TRADITIONAL COUNTRY ADVANTAGES Traditionally, economic theory mentions the following factors for comparative advantage for regions or countries: 1. Land 2. Location 3. Natural resources (minerals, energy) 4. Labor, and 5.

Local population size. Because these 5 factors can hardly be influenced, this fits in a rather passive (inherited) view regarding national economic opportunity. CLUSTERS Porter says that sustained industrial growth has hardly ever been built on above mentioned basic inherited factors. Abundance of such factors may actually undermine competitive advantage! He introduces a concept called " clusters" or groups of interconnected firms, suppliers, related industries, and institutions, that arise in certain locations.

These clusters are geographic concentrations of interconnected companies, specialized suppliers, service providers, and associated institutions in a particular field. They grow on locations where enough resources and competences amass and reach a critical threshold, giving it a key position in a given economic branch of activity, with a decisive sustainable competitive advantage over others places, or even a world supremacy in that field. Porter says clusters can influence competition in three ways: •They can increase the productivity of the companies in the cluster. They can drive innovation in the field. •They can stimulate new businesses in the field. Some well-known examples of Clusters are USA/Silicon Valley (computers), Netherlands/Rotterdam (logistics), India/Bangalore (software outsourcing), USA/Hollywood (movies), France/Paris (fashion). According to Porter, as a rule competitive advantage of nations is the outcome of 4 interlinked advanced factors and activities in and between companies in these clusters. These can be influenced in a pro-active way by government. INTERLINKED ADVANCED FACTORS FOR COMPETITIVE ADVANTAGE 1.

The Strategy, Structure and Rivalry of Firms. The world is dominated by dynamic conditions. Direct competition impels firms to work for increases in productivity and innovation. 2. Demand Conditions. If the customers in an economy are very demanding, the pressure facing firms to constantly improve their competitiveness via innovative products, through high quality, etc, will be greater. 3. Related Supporting Industries. Spatial proximity of upstream or downstream industries facilitates the exchange of information and promotes a continuous exchange of ideas and innovations. 4. Factor Conditions.

Contrary to conventional wisdom, Porter argues that the " key" factors of production (or specialized factors) are created, not inherited. Specialized factors of production are skilled labor, capital and infrastructure. " Non-key" factors or general use factors, such as unskilled labor and raw materials, can be obtained by any company and, hence, do not generate sustained competitive advantage. However, specialized factors involve heavy, sustained investment. They are more difficult to duplicate. This creates a competitive advantage, because if other firms cannot easily duplicate these factors, they are valuable.

THE ROLE OF GOVERNMENT IN THE DIAMOND MODEL OF PORTER The role of government in the Diamond Model of Porter is to act as a catalyst and challenger; it is to encourage - or even push - companies to raise their aspirations and move to higher levels of competitive performance. They must encourage companies to raise their performance, to stimulate early demand for advanced products, to focus on specialized factor creation and to stimulate local rivalry by limiting direct cooperation and enforcing anti-trust regulations. THE COMPETITIVE ADVANTAGE OF NATIONS

Porter introduced this model in his book: " The Competitive Advantage of Nations", after having done research in ten leading trading nations. The book was the first theory of competitiveness based on the causes of the productivity with which companies compete. Instead of traditional comparative advantages such as natural resources and pools of labor. This book should be considered obligatory reading for government economic strategists. It is also highly recommended for corporate strategists that are interested in the macro-economicenvironmentof corporations.