THE PORTER`S THEORY OF COMPETITIVE ADVANTAGE

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Keywords: competitive advantage, diamond, determinants.

Abstract: In this item, we approached one of the new theories of the economic development, the theory of competitive advantage. The theory of competitive advantage was created by Michael E. Porter, starting from the actual economic reality which could no longer be explained on the basis of the model of comparative advantages, elaborated by David Ricardo.

In order to conceive this theory, Porter analyzed four years, ten countries with important share in international commerce (Denmark, Germany, Italy, Japan, South Korea, Singapore, Sweden, Switzerland, Great Britain and USA), establishing the system of the determinants which determine the obtaining of the competitive advantage. Starting from describing the system of the determinants, the so-called "diamond", we analyzed detailed these determinants of the diamond: the factorial ones, the demand ones, upstream and downstream industries and the domestic competition, and also the chance and the governmental policy.

After analyzing and classifying the structure of these determinants, we approach their interaction - the dynamics of the diamond - by identifying the stages of the development which a country goes through and the features of each stage.

In the last part of the article, we enumerated the causes that might lead to loosing the competitive advantage and the position as a leader on the market, and a few critics brought to this new theory.

1. The presentation of the theory of Porter

The theory of the competitive advantage starts from the principle that the only important concept at the national level is the national productivity (Fota Constantin, 2004).

In the elaboration of his theory, Porter starts from the following premises (Porter Michael, 1990):

- the nature of the competition and the sources of competitive advantage are very different among industries and even among the segments of the same industry, and a certain country can influence the obtaining of the competitive advantage within a certain sector of industry;
- the globalisation of the competition and the appearance of the trans-national companies do not eliminate the influence of a certain country for getting the competitive advantage ; a country can offer different compatitive advantages for a company, depending if it is an origin country or a host country;
- the competitivity has a dynamic character (Schumpeter); the innovations have a role of leading force in this permanent change and determine the companies to invest on order not to be eliminated from the market (Negriţoiu Mişu, 1997).

Starting from these premises, Porter identifies a system of determinants which is the basis for getting competitive advantages by the nations.

2. The system of determinants

The theory is based on the system of determinants, called by Porter „diamond", which consists of:

A) the factorial determinants - the endowment of a country with factors;

B) the determinants of the demand - the features of the internal market;

C) up and downstream industries;

D) the strategy and structure of the companies and the rivalry among them - the domestic competition;

These four determinants are considerably influenced by others two factors: the chance and the governmental policy. All these determinants are conditioned one to another.

According to Porter, the countries have success „where the national diamond is the most favourable". The more complex and dynamic the economic environment of the country is, the more like is some companies to fail if they cannot capitalize in an adequat way the requests of this environment.

A. **The factorial determinants** represent the starting point necessary to enter in competition. The classical economic theory identifies the labor, land and capital as the factors of the production. The theory of Porter demonstrates that, even the endowment with factors is obviously important, the critical element for a country to be competitive is to create new factors and to improve the existing ones. The competitive advantage should be created, it is not inherited (Negrițoiu Mişu, 1997).

Porter divides the production factors into the following categories:

1) human resources - quantity, the level of instruction, the costs with the labor, the time of working, the attitude to working;

2) natural resources - abundance, quality, accesibility, the costs with land, water, mineral resources, forest;

3) knowledge resources - the supply of the scientific, technical and marketing knowledge used for creating and distributing goods and services. These knowledge are located in universities, research institutes, informational system, data banks, commercial associations, and so on;

4) capital resources - the level and the cost of the capital available for financing the industry, determined by the saving rate of the economy and the structure of the financial national market , which is different from a country to another, although we attend the globalizations of the capital markets;

5) infrastructure - includes not only the transport systems, post, communications, payment systems and the systems used to transfer money, but also different infrastrucure elements that determine the attractivness of a country regarding the quality of life and work conditions (culture, health).

Considering the present conditions, when the mobility of the production factors is permanently increasing , it is less important the direct access to them, but especially the economic and financial eficacity in their allocation and use.

Porter sees two categories of production factors:

a) primary factors (include natural resources, climate, geografical position, qualified or not qualified labor) that can be met in all countries, but with different proportions.

b) advanced factors (modern informatic infrastructure, high-skilled labor, competitive research institutes). The most of these factors are created in time with important investments. In present, these factors are also the most important for obtaining the competitive advantage. But Porter draws the attention that often the advanced factors are built on the primary factors.

Another classification of the production factors divides the factors by their specificity into:

-generalized factors (the transport and communications system, banking system, educated and motivated labor) that can be used in many industries, being available in many countries;

-specialized factors(high skilled labor, special infrastructure) located into a limited number of economic sectors. Their creation supposes bigger investments with a bigger level of risk, starting from the existence of the generalized factors. They are rare but critical for creating and maintaining different forms of competitive advantages.

B. **The determinants of the demand** have an important role for creating competitive advantages. They influence the aquirement of the competitive advantage by the mix of the domestic demand. The nations win the competitive advantage if the domestic demand is so strong that forces the companies to innovate more rapidly than the foreign competitors in order to stay on the market. Porter identifies three features of the domestic demand which influence the aquirement of the competitive advantage:

- the structure of the domestic market which determines the quality level of the goods;
- severe domestic buyers with sofisticated needs;
- anticipatory needs of the domestic buyers.

In the case of a big country with big domestic market the development is stimulated and investments for large-scaled production of the goods can be made, while in the case of a small country with reduced domestic market, the only chance to reach a scale economy is to become international.

The domestic market can develop the competitive advantages by internationalizing the domestic demand and the distribution of the national products abroad. When among the buyers are foreigners, no matter if occasional buyers (tourists or bussinessmen) or permanent buyers (the subsidiaries of the foreign trans-national companies) and their needs are severe, this fact determines the national companies to improve their goods.

The conclusion is that the domestic market, by its features can determine the aquirement of the competitive advantage. But itsinfluence depends on the other determinants of the „diamond”.

C. **Up and downstream industries** are another determinant in obtaining the competitive advantage, if they have a strong position on the international market. O country can become more competitive, if it has a more concentrated and specialized horizontal and vertical industry, that can bring a plus of information, of innovation, but the same as in the case of the determinants of the demand, the influence of the links among the industry branches on the growth of the international productivity and consequently on obtaining the competitive advantage depends on the other determinants of the „diamond”.

D. **The strategy and structure of the company and the rivalry among them** is the fourth determinant of the diamond that influence the international competitivity of a country by the way which the companies are organized and managed in, by the proposed objectives and the applied strategies. Of course, there are differences among the countries regarding the instruction level, the objectives, the working style and the managers` approaches.

The goals and strategies depend on the form of ownership, the motivation of the owners and on the stimulation of the managers. Essential for the competitive advantage is the coordination of the company` goals with those of the owners, shareholders, managers.

The individual motivation of people working in a company is important for improving the professional training for aquiring and maintaing the competitive advantages.

The aquirement and maintaing of the competitive advantages are closely linked to the existence of a real and strong competition on the domestic market, which motivates the companies to promote new products on the market and to discover new markets in order to stimulate the growth.

The domestic competition has, at least, the same importance as the international competition, the existencxe of many competing companies being favourable as the national companies become as strong as their foreign competitors. The adoption by the government of certain regulations that encourage the establishment of new companies determines the growth of the competition and thus contributes to maintaining the competitive advantage.

As we showed earlier, these four determinants of the „diamond" evolve closely with other two factors: the chance and the policy of the government.

The chance: Porter noticed that during the evolution of the most industries which got the competitive advantage , a major role had the chance, identified by wars, major changes on the international financial market, changes into the costs of the production factors (the oil schocks), political decisions of the foreign governments, pure inventions.

The governmental policy can influence the aquirement of the competitive advantage being considered as the most important determinant. This is related to the fact that a government can influence the local market by subventions, investments in education, regulating the domestic market, creating a competitive infrastructure for reducing the accessing costs of the factors. The state is also an important buyer for certain industries, such as defence industry, aeronautics, telecommunications.

Important is to approach the system of the competitiveness conditions with a coherent governmental action in order to create or improve the national competitive advantages.

3. The dynamics of the diamond

According to Porter, only the countries, that have a functional „diamond" , at which the individual elements are reciprocally positive amplified, have national competitive advantages on long term and in ther turn these facilitate the obtaining of the competitiveness at international level. His opinion on this aspect is that no country is competitive in all fields. Only industries or companies that first, overcame through a strong domestic fight, can create a competitiveness at international level.

The national economies go through a few stages of development, stages that reflect both the sources of the advantage of a country in international competition and the nature and the size of the successful industrial branches.

Porter identifies four stages of developping the competitive advantages in the evolution of an economy:

- the stage of the advantages based on factorial endowment;
- the stage of the advantages based on investments;
- the stage of advantages based on innovation;
- the stage of the advantages based on the national wealth.

In the first stage, of advantages based on the factorial endowment, the industrial branches, with international success, owe their advantage almost exclusively the primary factors of production. In this stage, the economy of the country is sensitive to the world economic cycles and fluctuation of the exchange rates that determine the demand and the relative prices.

In the next stage, of the growth based on investments, the national competitive advantage is based on the desire and capacity of a country and its companies to invest in major way.

In the third stage, of the growth based on innovations, the competitive advantages of the country come not only from adapting and improving the technologies and new fabrication methods, but especially from creating new ones. These stages of the competitive economic growth include the continuous improvment of the competitive advantages and are associated with the permanent growth of the economic prosperity.

Unlike these stages, the stage of the economic growth based on the national wealth is a stage that leads to decline eventually. An economy based on a wealth realized in the past can not maintain itself, because the motivation of the investors, managers, individuals is changed in other directions which subminate the sustained investments and innovations. The goals are others, including the social goals, which have now more priority compared to the goals which supported the economic progress.

The countries cross these stages one by one, as a rule, but it is not excluded certain stages to be subpressed or to be prolonged more (Fota Constantin, 2004).

4. The loss of the competitive advantage

The aquirement of the competitive advantage supposes in an equal way the appearance of the risk to loose it. Porter declares that the national advantage is lost when the „national diamond" stimulates no longer the innovation and investments in the direction in which the market evolves, and the industries have no longer a correct perception of the demand.

Porter investigated and analyzed which developments lead to loosing the competitive advantage at the national level:

- the damage of the factorial determinants;
- the needs inside the country do not correspond anymore with the global demand;
- the domestic buyers have no more sophisticated needs compared to the foreign buyers;
- the technological changes lead to considerable disadvantages regarding the specific factors or the supporting sectors deprive (for example the shortage of human capital, inefficient or inexistent infrastructure);
- the goals limit the investment rate;
- the companies loose their flexibility;
- the competition on the domestic market decreased (for example to much concentration, governmental intervetions to protect the competitors which are not competitive);
- deterioration of the competing environment;
- the appearance of certain unforeseeable situations that affect fundamentaly the political and economic stability (chance for other competitors).

As any other theory, even the theory of the competitive advantage has adherents and opponents. Among the critics brought this theory we enumerate the ones regarding an insufficient substantiation of the concept of competitive advantage and the confusion beetween the companies and nation. Beyond these critics, the theory of the competitive advantage comes in a moment, in which, the model of comparative advantages corresponds no more the economic reality and blasts hope to the countries remained behind in the economic competition. Thus, if the theory of Ricardo were strictly related to the existence of the production factors (see the many critics brought the theory of comparative advantage related to underdevelopment of many countries rich in natural resources), the theory of Porter gives a new foundation for the industrial and commercial policy. It remains yet to be seen which countries or companies will find the best solutions to create and maintain the competitive advantage and will succeed so to go further on the way of economic progress and wealth, considering the present conditions of regionalizing and globalizing.

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