



# Changing Paradigms of International Competitiveness

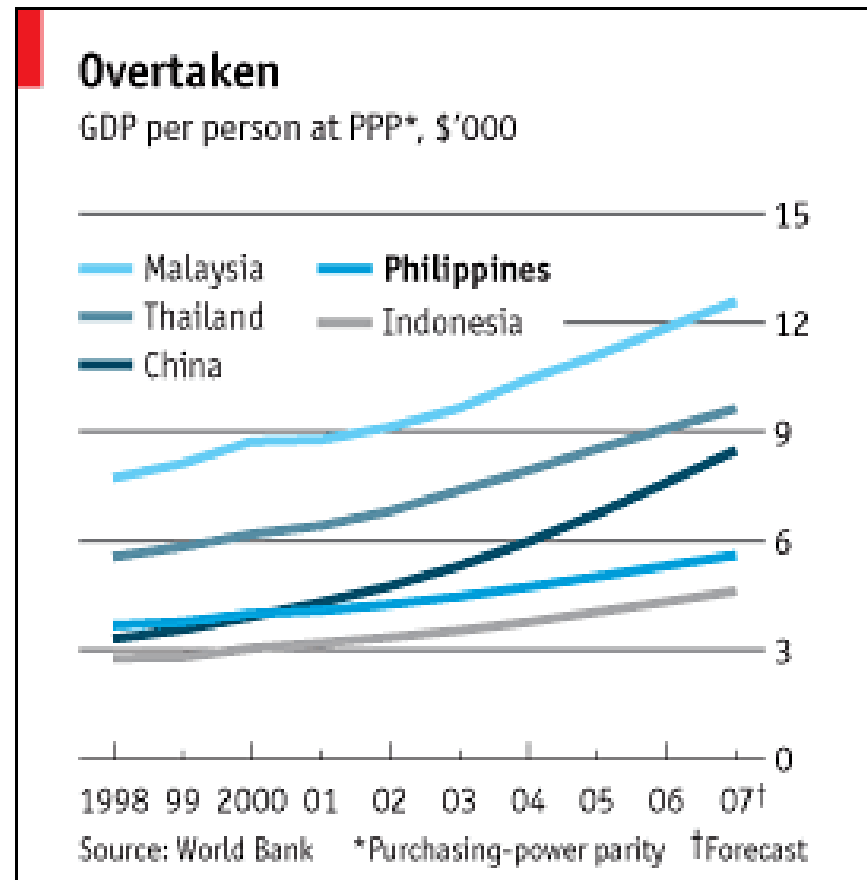
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*Is it a Diamond? No, it is a GEM*

Dr. Christine Nielsen  
Professor of International Business & Strategy  
Fulbright-SyCip Distinguished Lecturer

# Why is understanding the roots of competitive advantage so important?

- For sustained economic success at the firm-level
- For prosperity, national security, and human development at the national level





# Purpose of Session

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- To more fully understand crucial factors of national competitiveness
  - Focus at industry and firm-level
- To explore implications for business strategies and public policies in the Philippines
- To propose in-depth case research in the Philippines



# Session Overview

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- Foundations of Competitive Advantage
  - Porter's Diamond in the 20<sup>th</sup> century
- The Competitive Landscape Today
  - The GEM model
- Implications for Business & Government Leaders
- Proposal for Case Research
  - Case studies of successful Philippine companies
  - Comparative study pairing Philippine firm with its major rival in the region



# Building Blocks of National Competitive Advantage

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- Pioneering work of Michael Porter (1990)
- 30+ researchers participated in a 4-year study
  - 10 nations
  - 100+ industries/industry groups
- Results indicated national competitiveness depends on 4 *interdependent* attributes
- The 'Porter Diamond'

M.E. Porter (1990).  
*The Competitive Advantage of Nations*  
New York: The Free Press, p. 127.

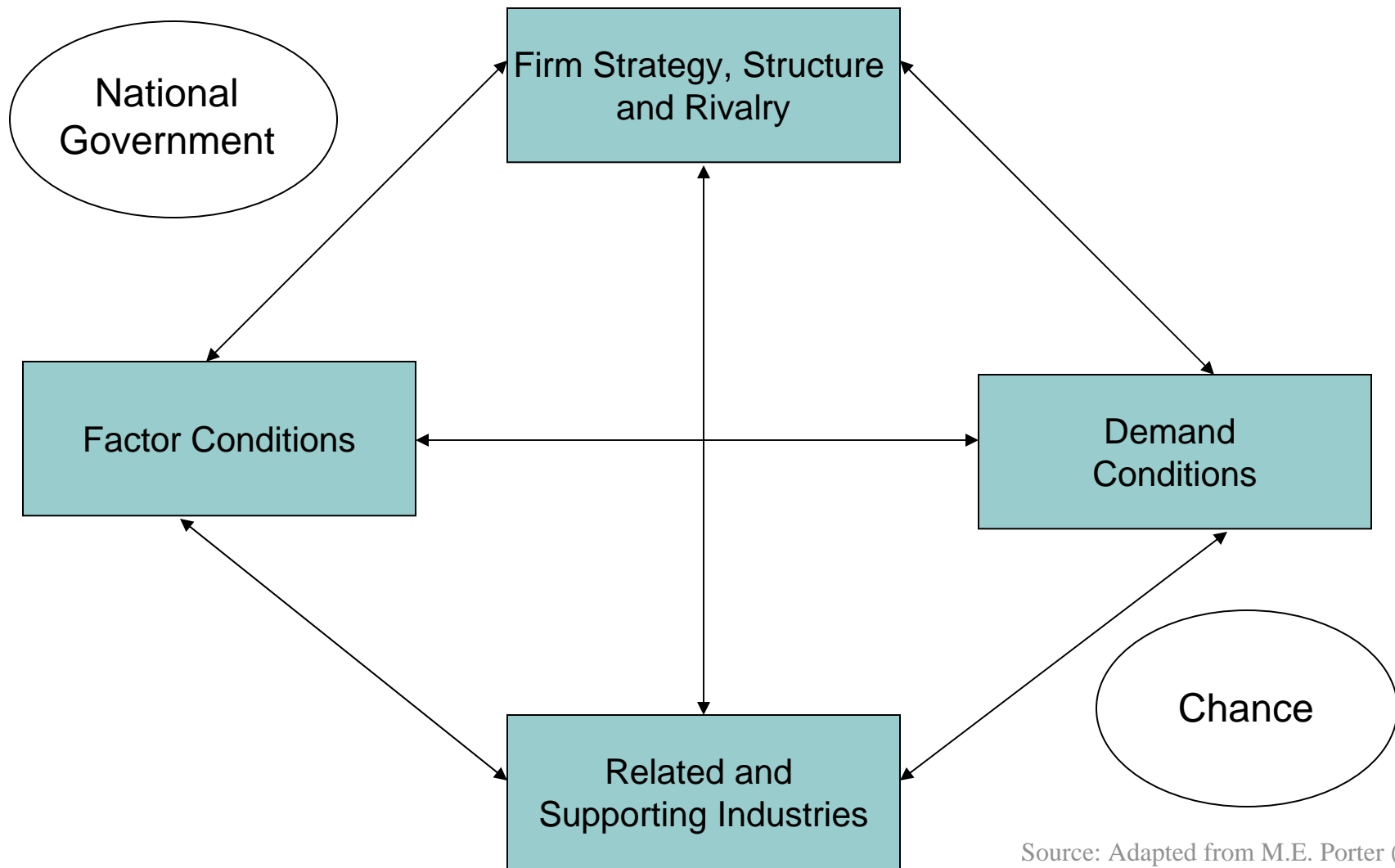


# Building Blocks of National Competitive Advantage

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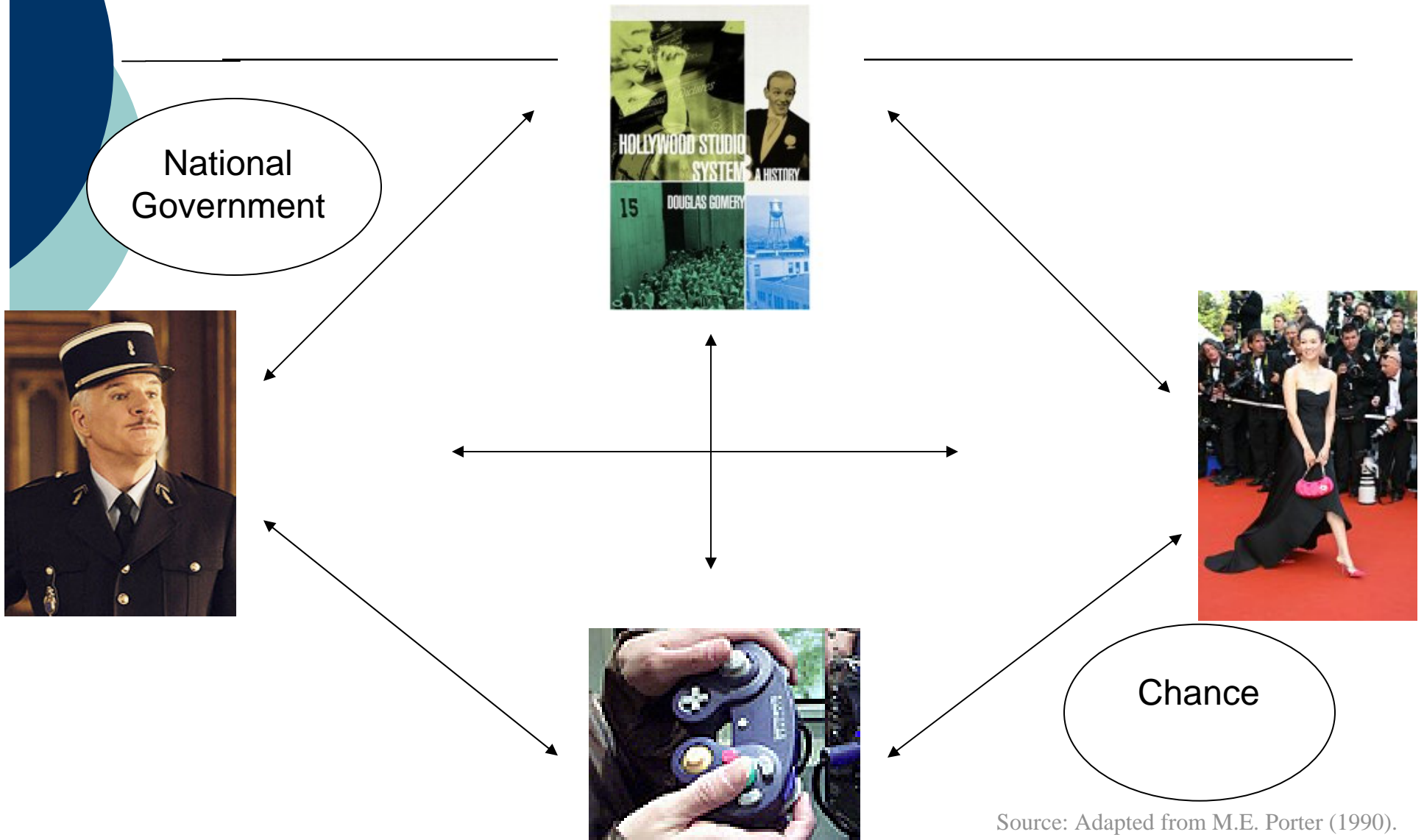
- Value-creation and increasing efficiencies lie at the heart of a nation's ability to compete
- Domestic clusters of firms are the primary source of these capabilities
- Cluster firms compete and collaborate:
  - To utilize factors of production
  - To respond to customer demand

# Porter's Diamond: 4 Determinants of National Competitive Advantage



Source: Adapted from M.E. Porter (1990).  
*The Competitive Advantage of Nations*  
New York: The Free Press, p. 127.

# Entertainment Sector Example: Hollywood





# GEM Model Addresses 3 Missing Elements in the Diamond

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- **G**lobal Dynamics  
(Regionalization & Globalization)
- **E**xtra Context  
(Cultural & Historical Factors)
- **M**anagement  
(Strategic Leadership of Business & Government)

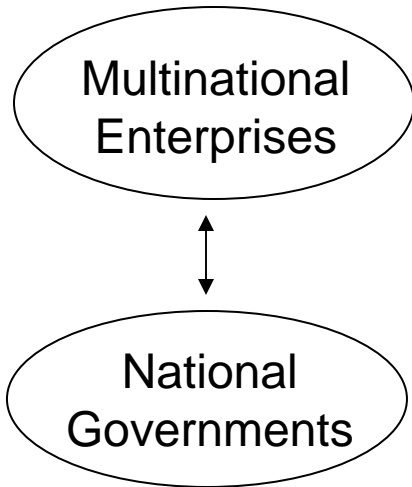


# GEM Integrates Management

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- Business & government leaders are the central actors in the competitive system
- These decision-makers:
  - Identify areas of distinctive competencies
  - Set goals
  - Determine strategic directions
  - Direct performance toward results

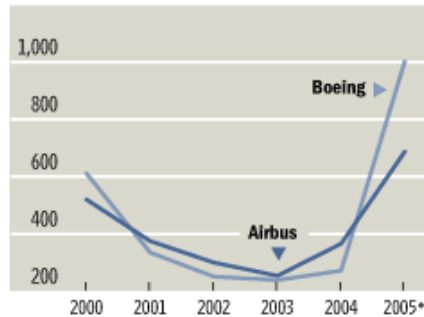
# Aerospace Defense Sector Example



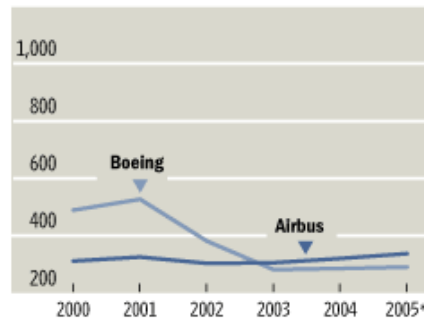
## Fighting Back

Airbus is expected to have beaten Boeing in 2005 jetliner deliveries when it reports annual figures tomorrow, but Boeing's new models have stoked competition for orders.

### Total net new aircraft orders



### Total aircraft deliveries

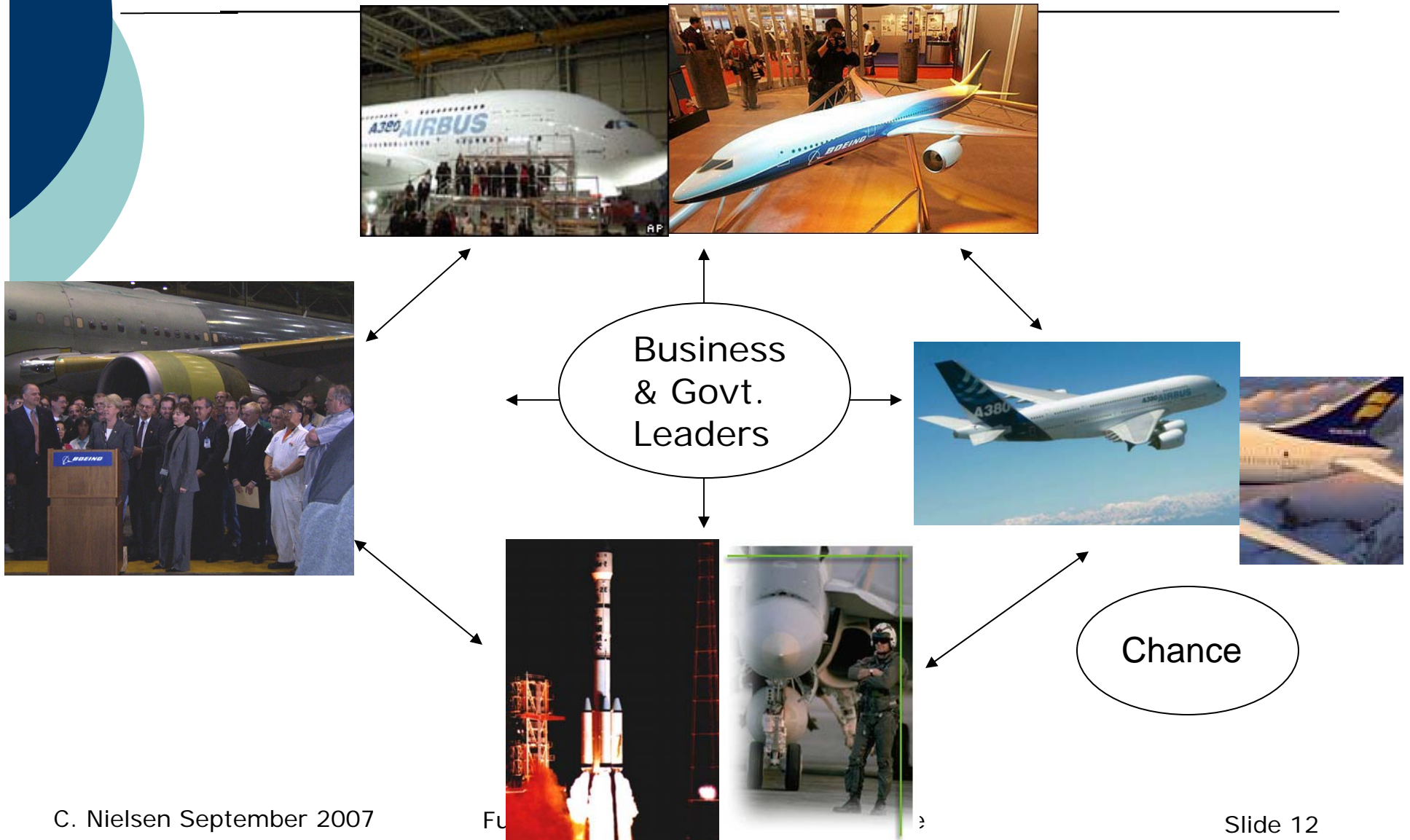


\*Airbus 2005 figures are through Nov. 30; full year results are expected to be released tomorrow

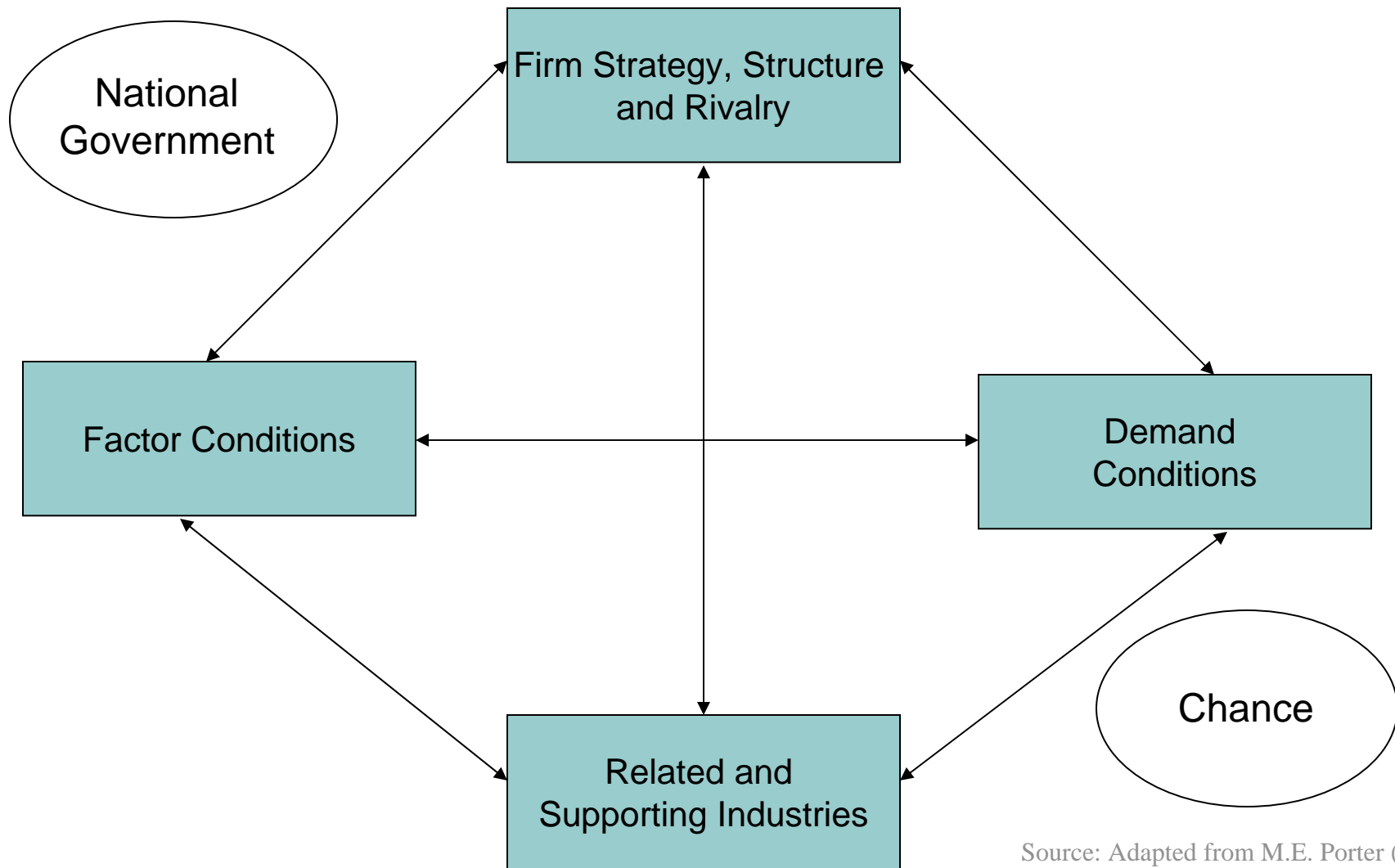
Source: the companies



# Aerospace Defense Sector Example

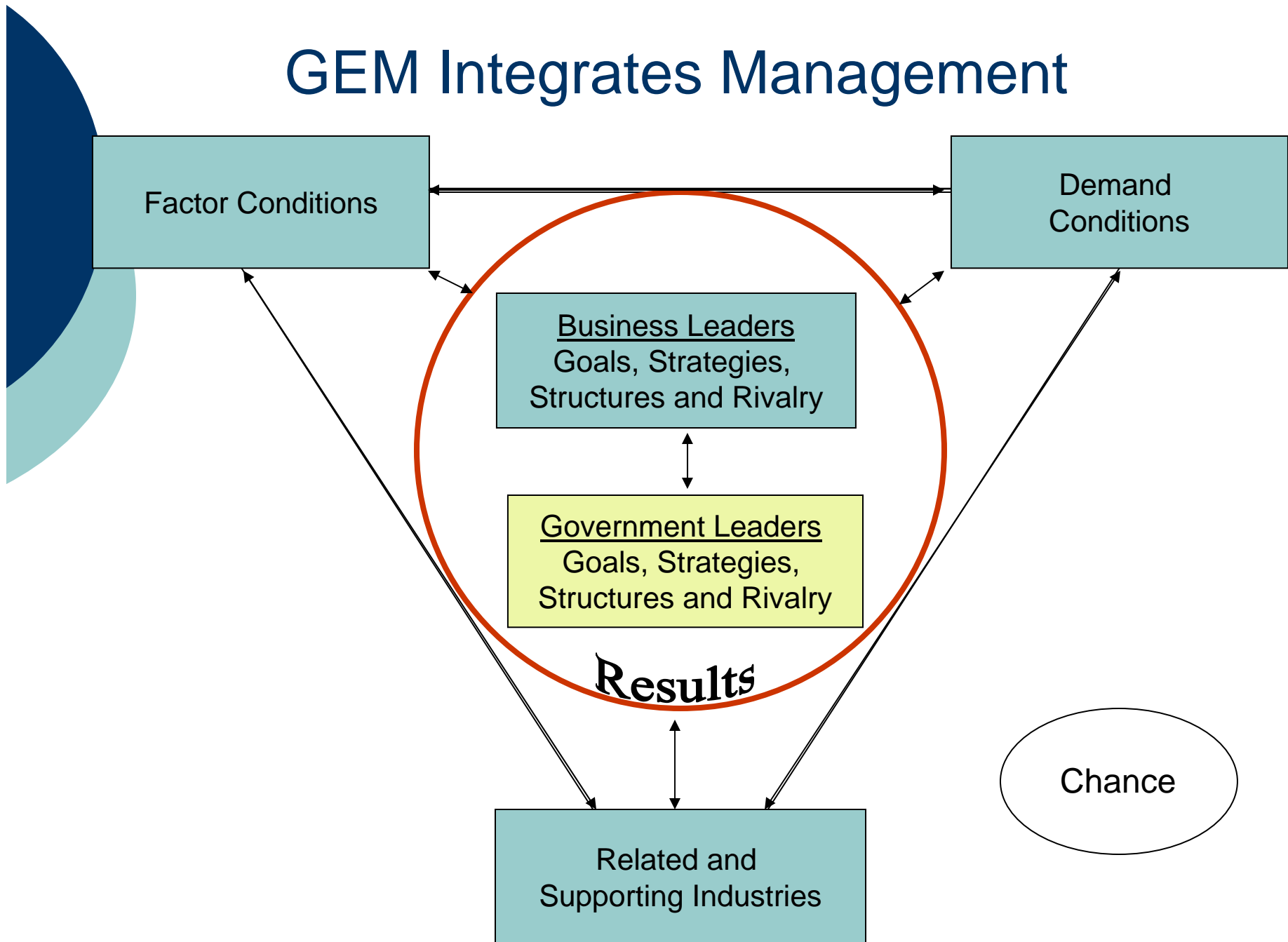


# Porter's Diamond: 4 Determinants of National Competitive Advantage



Source: Adapted from M.E. Porter (1990).  
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# GEM Integrates Management





# GEM Integrates Extra Context

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- Cultural & historical factors underlie economic systems of organization
- The Diamond does not account for non-Western value systems or philosophies of economics and organization
- Alternative strategies and ways of organizing give rise to alternative types of competitive systems



## Models of Organization in Asia

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- Integrated networks of companies work in partnership for *long-term objectives*

Japan, South Korea, Taiwan, Hong Kong, China, Indonesia, Malaysia, and Thailand



# Organizing Characteristics of Asian Networks

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**Goal: *Long-term stability & security***

- Close, long-term relationships
- Intra-group buying, selling, financing
  - ~ 10-50% of total trade
- Interlocking directorships
- Exchange of personnel
- Cross-shareholding
- Transplants abroad-
  - Suppliers follow the leader

## Examples of Asian Organizations as Networks

- Sharp (Japan)


**SHARP.**

- Konka (China)



- Charoen Pokphand Group (Thailand)





According to Porter, the best way to  
organize for success is to...

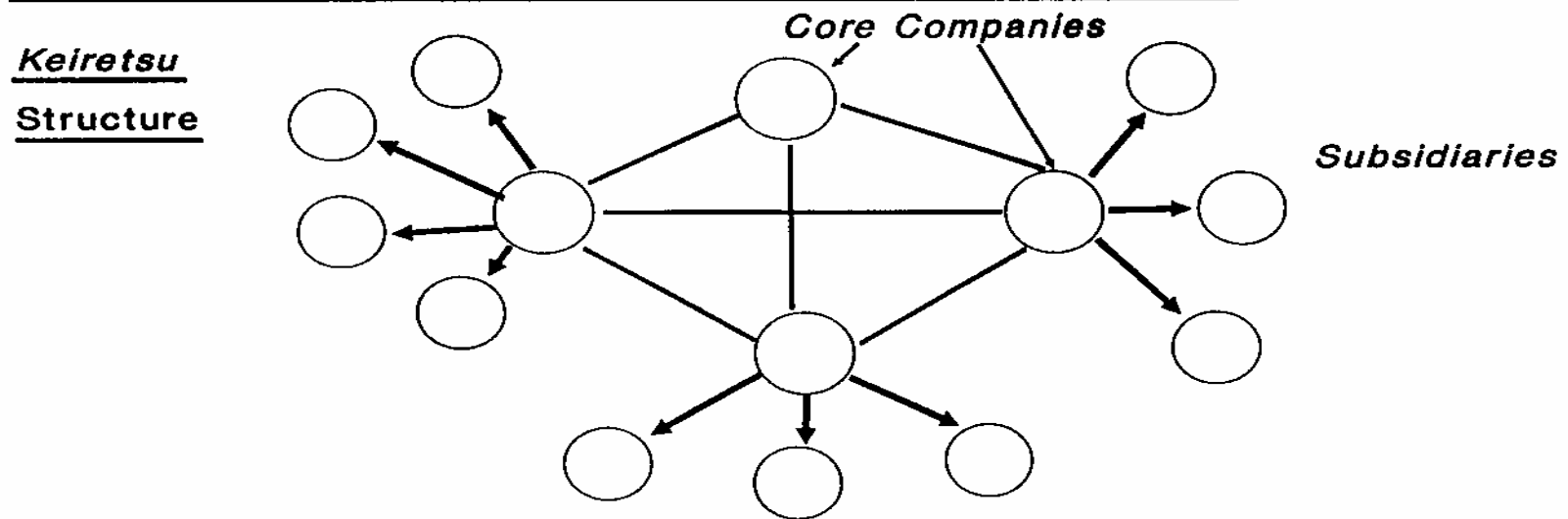
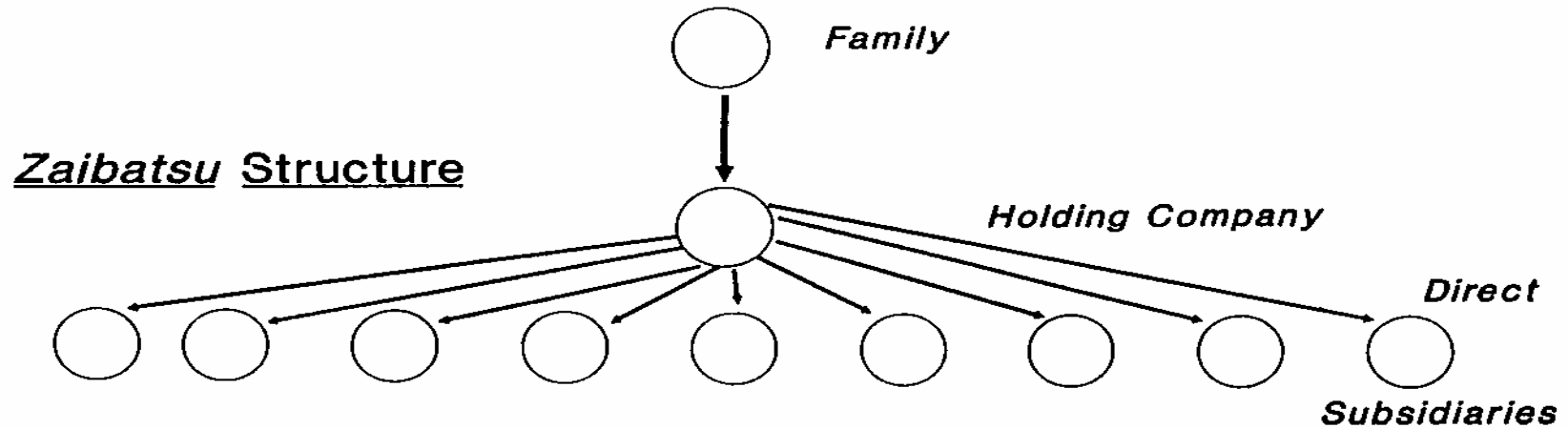
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... take an intermediate strategic position  
between  
formal strategic alliances  
and  
vertical/horizontal integration

*While this advice holds true for many Western  
companies, it does not hold true in all other regions.*

Source: M.E. Porter (1990).  
*The Competitive Advantage of Nations*  
New York: The Free Press, p. 127.

# Case Example from Japan: The Keiretsu Network



# Liquid Crystal Display (LCD) Cluster Example

# SHARP

**Culture**

- Education
- Language
- Religion
- Social Structure

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**Historical Context**

- Economic
- Philosophy
- Political
- Philosophy

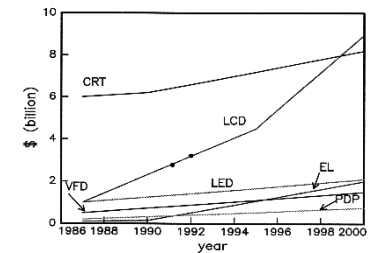
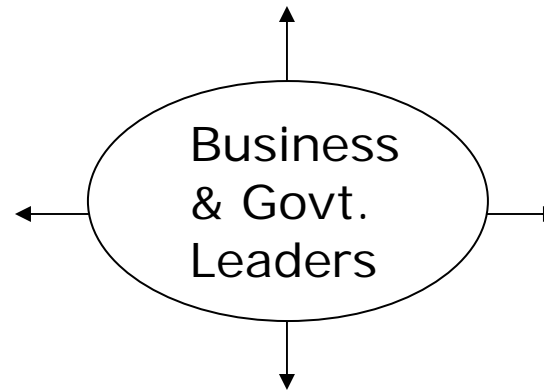
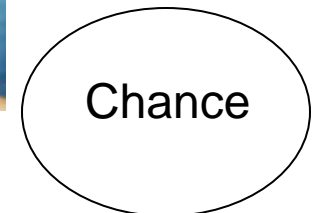
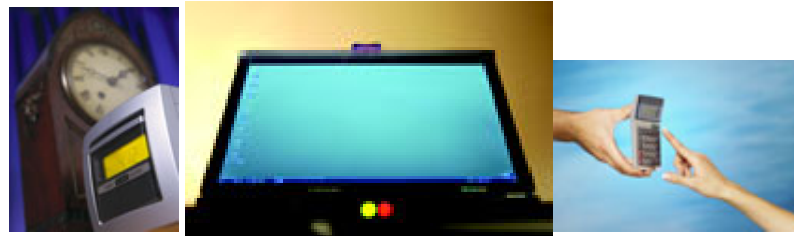


Figure 7.1. Asada's 1990 view of the display business by technology (Asada 1990).





# Case Example from China: Konka Group Company Limited (Konka)

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- Government is a Strong Partner
  - Majority owner
  - Preferential treatment
  - Economic development through Chinese MNEs
- Strategic Moves Upstream
  - From low tech (color TVs) to high tech (HDTV)
- From Toeholds to Leadership Position
  - Start as OEM; Ride learning curve to increase quality & technology
  - Establish strong brand name in the market
- Global Production and Market Expansion



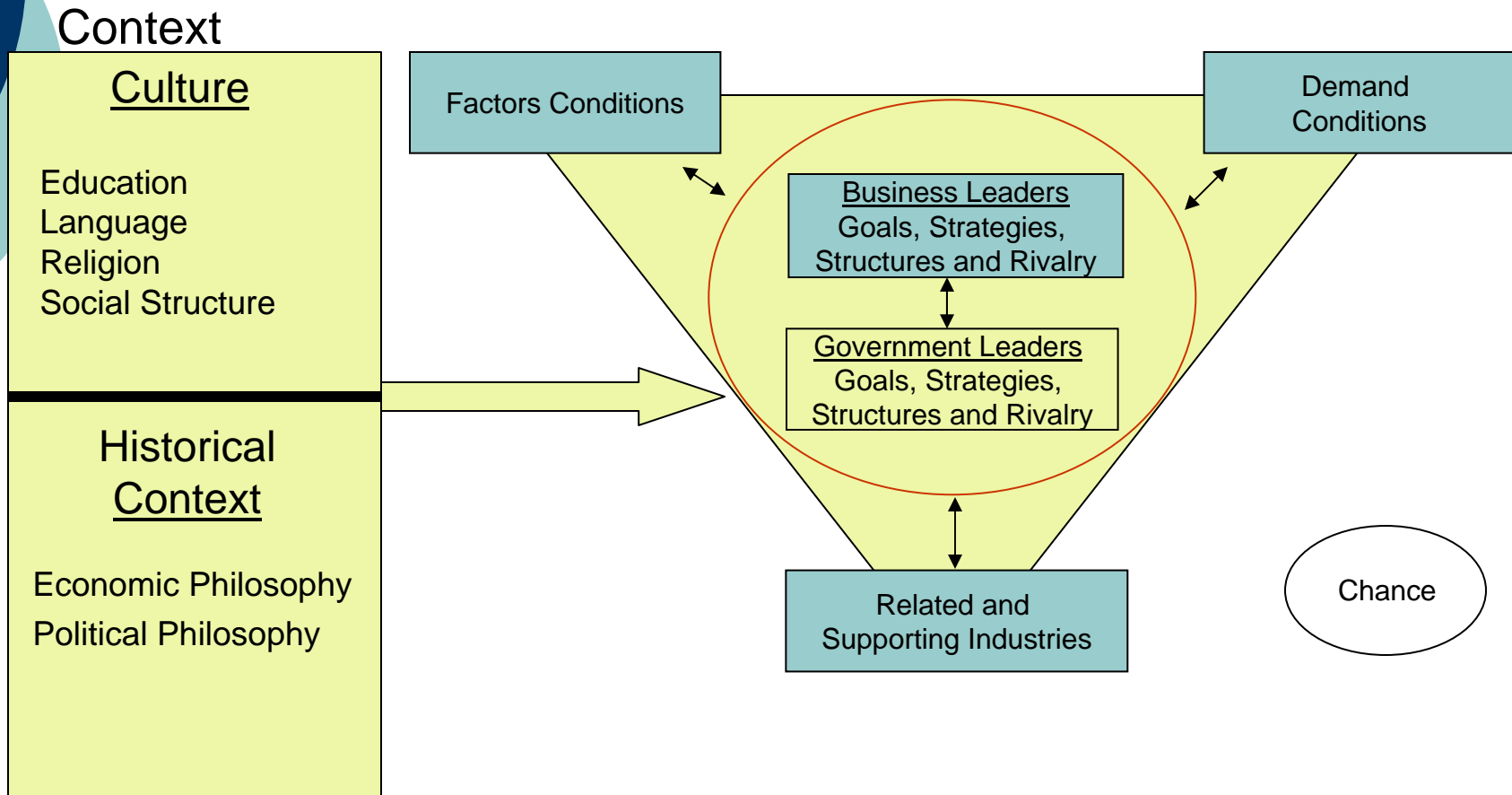
# Case Example from Thailand: Charoen Pokphand Group

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- Long-Term Goals: The Three Benefits Policy
  - Country
  - People
  - Company
- Be First to Market
- Control Critical Elements in the Supply Chain
- Organize the Company like a Network of PCs
- Build Walled Cities

Williamson , P.J. (1997). Asia's New Competitive Game.  
*Harvard Business Review*, 70 (1).

# GEM Integrates Extra Context





# GEM Integrates Global Dynamics

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*Globalization is a process driven by economic forces caused by “the spatial reorganization of production, international trade and the integration of financial markets...”*

Sideri, 1997. Globalization and Regionalization,  
*European Journal of Development Research*

*Global dynamics means that national diamonds have to be replaced by supranational diamonds...*

Dunning, 1993

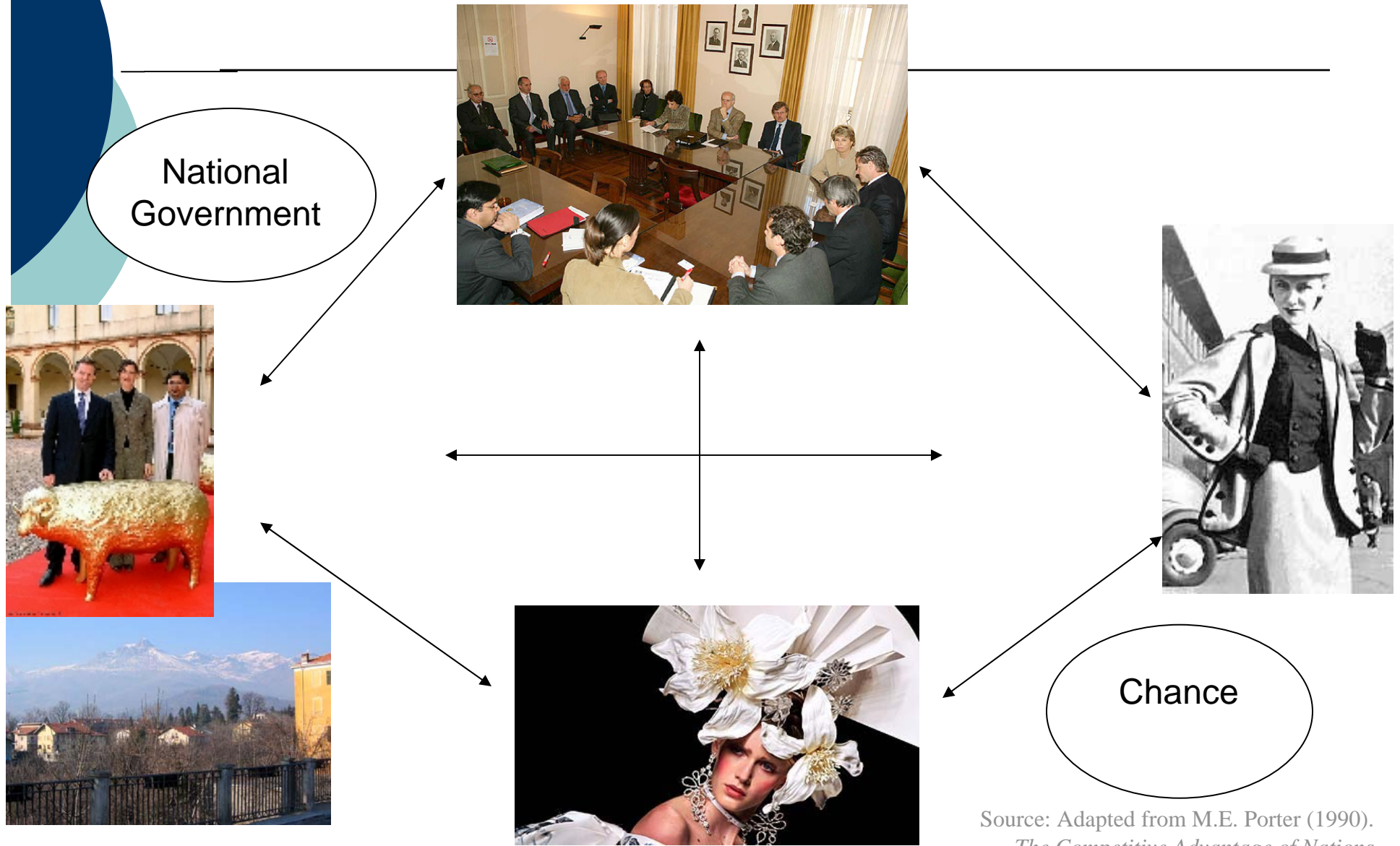
# What is the Impact on Porter's Diamond?

- Dec. 31, 1999, *The Economist*

The Complications of Clustering: Northern Italy is studded with thriving clusters of manufacturing businesses. Why are they so vigorous?



# Globalization of Competition: Biella, Italy



C. Nielsen September 2007

Fulbright SyCip Distinguished Lecture

Source: Adapted from M.E. Porter (1990).  
*The Competitive Advantage of Nations*  
New York: The Free Press, p. 127.

# What is the Impact of Globalization?

- Dec. 17, 2004, *Wall Street Journal European Ed.*  
*Italy's Textile Industry, Once Seamless, Is Torn by Chinese Competition: Asian Rivals' Rising Quality Unravels Unity that Buoyed Nation's Economy.*

- January 27, 2005, *The Economist*

*European Textiles: The Sorry State of Fashion Today- From High Fashion to the High Street, Europe's Rag Trade is Being Torn to Shreds*





# *THE WORLD IS FLAT*

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T.L. Friedman (2005)

## New Playing Field

Global web-enabled environment without regard for geography, distance, language

## New Players

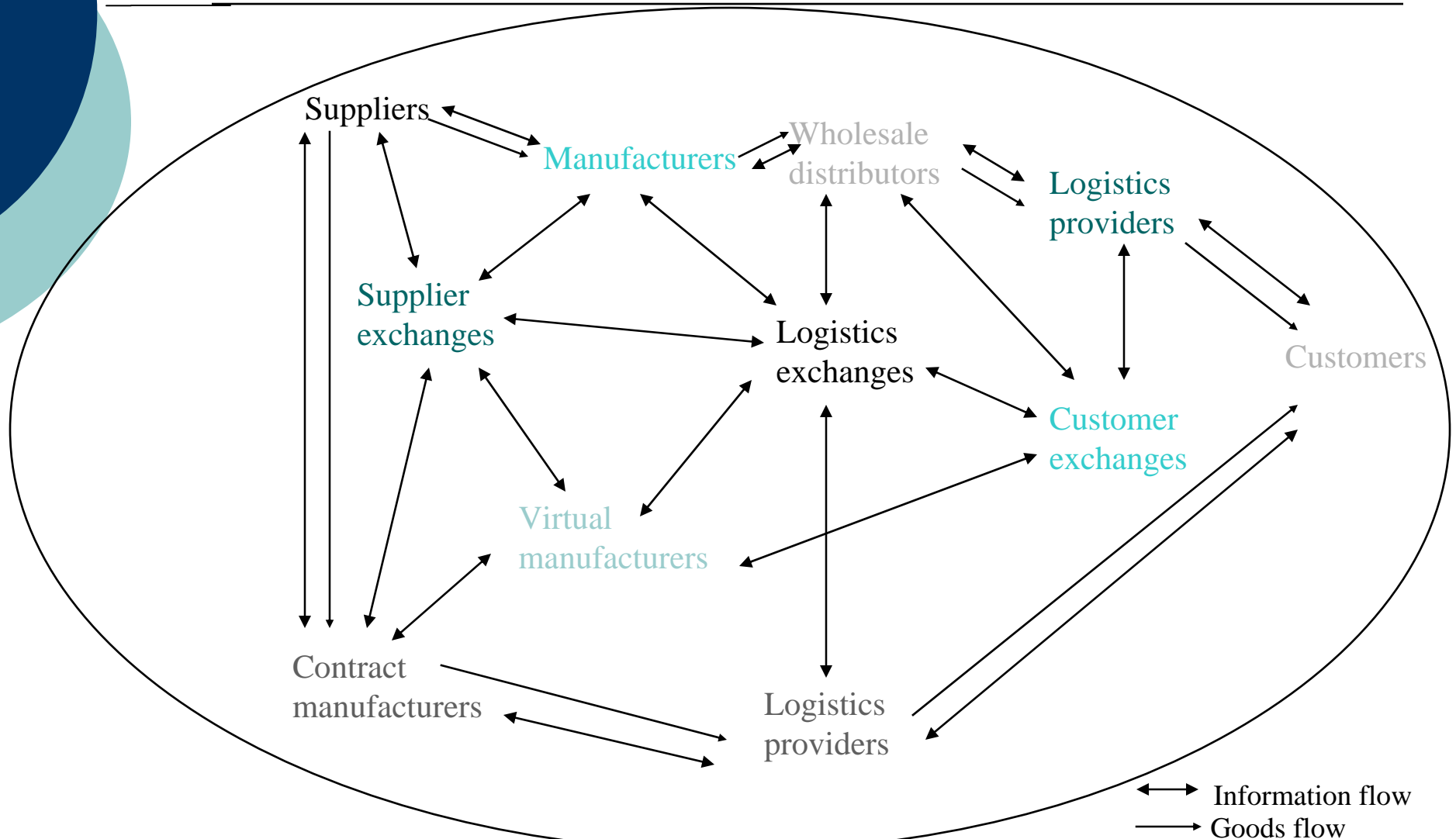
1.5 billion new workers doubles size of worldwide workforce

## New Processes for Horizontal Collaboration

Business processes & new skills lead to new ways of doing things and new technologies make new ways of doing things even better...

*"Complementary convergence of world flatteners."  
(Paul Romer, Stanford U.)*

# GEM Integrates Global Dynamics





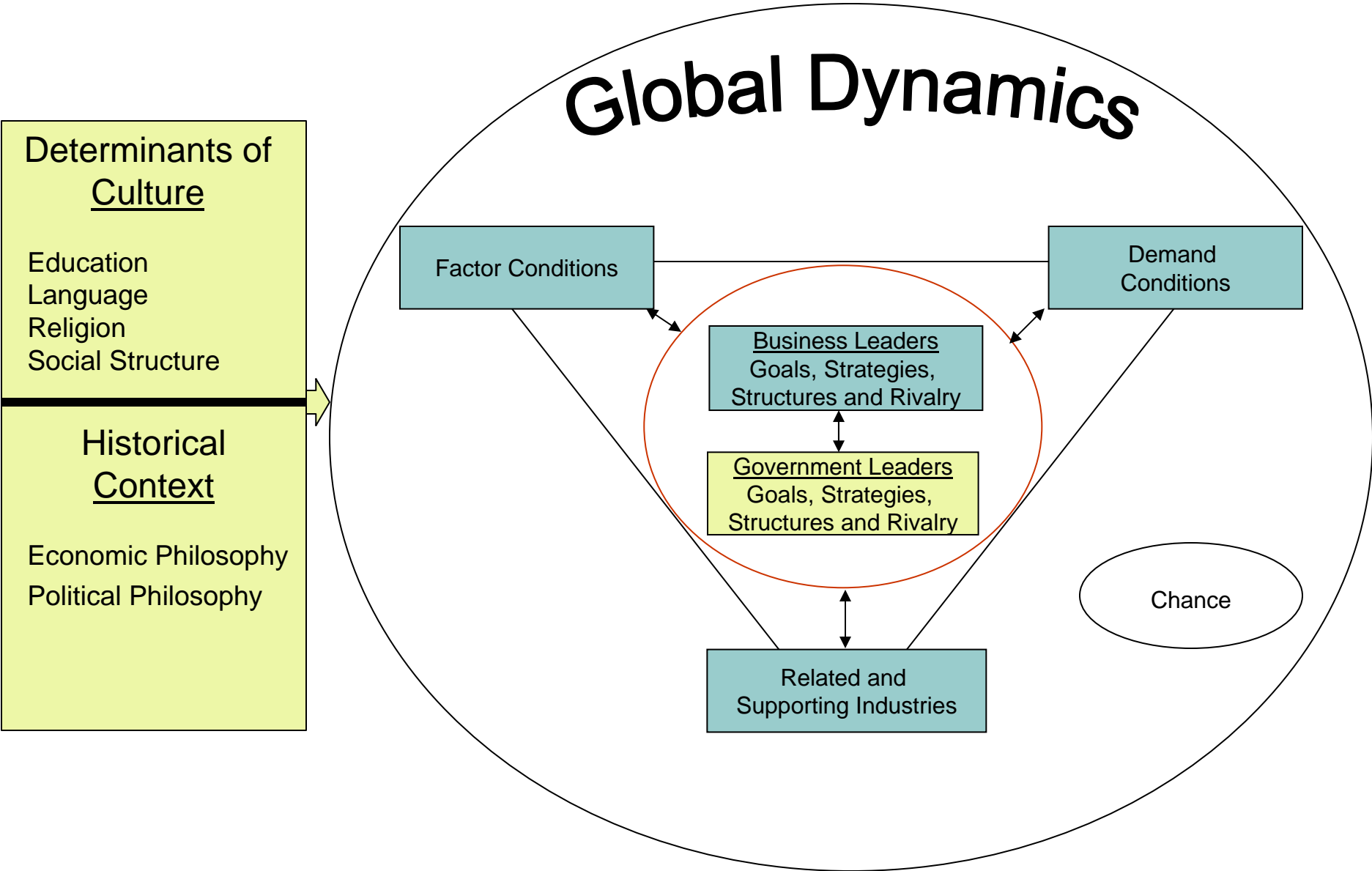
# GEM Integrates Global Dynamics

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*In the 21st century competition between firms and industries is becoming far less important than competition between individual tasks within firms in different countries.*

*The Economist, 2007*

# GEM Integrates Globalization & Regionalization





# Conclusions

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- Decisions of business and government leaders are the primary determinants of national competitive advantage
- Factor and demand conditions are secondary to wise decisions on how to gain efficiencies and create value



# Conclusions

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- Cultural and historical factors lie at the roots of competitive advantage
- Goal-setting, strategic game plans, and priority outcomes are strongly influenced by these factors
- Organizational systems that take these factors into account support competitive advantage



# Conclusions

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- Physical distance between the firm and value-creating, efficient resources is no longer a hindrance
- Accessing sources of competitive advantage in this virtual world depends on efficient telecommunications, networking systems and the capabilities of global virtual teams.



# For Consideration by Philippine Business Leaders

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- High performance goals
  - Tomorrow's environment will be more competitive than today's
  - Benchmark against top global competitors
  - Aim to meet the needs of the most demanding customers
  - Prepare to meet tough international regulatory standards
  
- Organizational structure
  - Cultural and historical factors underlie organizing systems
  - Appropriate structures are context-sensitive
  
- Location strategies
  - Business activities may be centralized or globally dispersed
  - Virtual connections may yield higher returns than those based on geographic proximity
  - The objective is to offer top value to the customer



# For Consideration by Philippine Business Leaders

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- Cooperative strategies
  - Partnering with firms in related industries may offer synergies
  - Consider MNEs as well as domestic partners
  
- Community strategy
  - Participate in initiatives to foster national competitiveness
  - Support education; partner with universities and technical institutes
  
- Political strategy
  - Encourage government policies to strengthen Philippine companies' competitiveness



# For Consideration by Philippine Government Leaders

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- Indirect role
  - Strong support for the rule of law and transparency
  - Investments in social infrastructure
    - Significant expenditures on education
    - Health care
    - Physical and IT infrastructure
  - Presence in regional and global trade organizations
  
- Direct role
  - Invest in strategic industries that hold the key to Philippines long-term competitiveness and national welfare
  - Promote inclusion of a larger proportion of the population in the nation's economic growth



# Implications for Academic Research

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- Case studies of successful Philippine firms to analyze determinants of their success
  - Business and government leadership?
  - Resources and capabilities?
  - Demand conditions?
  - Supportive industry cluster?
  - Cultural and historical factors?
  - Globalization or regionalization as drivers?
- Comparative analysis pairing Philippine firm with one of its major rivals
  - Business Process Outsourcing (BPO) example?
  - Other?